

EU states censured over Emu progress

By Lionel Barber in Brussels

European Union finance ministers yesterday delivered a blunt warning to 12 member states, including Britain, France and Germany, to trim their budget deficits in order to stay on course for monetary union in 1999.

Only Denmark, Ireland and Luxembourg escaped censure at the ministerial meeting in Brussels yesterday. Sweden and Belgium were singled out for praise, however, for having made substantial "statistical" progress since March in bringing their finances under control.

The warnings are part of the EU's "excessive deficit procedure" - the annual evaluation of progress toward the Mass-

trict treaty's deficit and debt criteria which amount, respectively, to 3 per cent and 60 per cent of gross domestic product.

The Brussels meeting was the first under the Irish presidency which is pledged to inject fresh momentum into the debate on employment after last month's inconclusive EU summit in Florence.

Mr Ruairi Quinn, the Irish finance minister, announced that ministers had agreed to set up a high-level political group to study the European Commission's request for an extra Ecu10m (£1.25bn) to finance spending on EU transport networks.

The Irish presidency set out an ambitious work programme for the next six months, including stiffening measures to

Mr Kenneth Clarke, the UK chancellor, yesterday endorsed a call by the EU monetary committee not to jeopardise Britain's eligibility for a single currency by tax cuts in this year's budget which many Tories believe are essential to prevent a Labour general election victory, said John Kampfner and Lionel Barber. He

said he was not prepared to jeopardise his plans

to restore order to the public finances after an unexpected shortfall in this year's revenues.

The committee's recommendations call for Britain to end its excessive deficit "as rapidly as possible". The target of 4.5 per cent of gross domestic product recommended for 1995/6 is

unlikely to be met, it says.

Mr Clarke was "entirely content" with the recommendations. "Tax cuts are a very good thing, but you only get tax cuts when you have got your spending under control, still respect your priority spending commitments, and got your borrowing on a firm downward path."

He will unveil the Treasury's summer forecast today, the first official indication of the government's economic assumptions since last November's budget. It is expected to revise down the projected pace of growth this year and show a significant upward revision in the level of public sector borrowing.

tackle fraud against the Union's budget and wrapping up all technical aspects of the transition to the single currency by the end of the year.

Issues include the relationship between Emu participants and those outside the eurozone, the German plan for a stability pact to enforce budgetary discipline in the post-Euro world, and the operation of a new model exchange rate mechanism.

Mr Kenneth Clarke, Britain's chancellor of the exchequer, said membership of the Euro

Mark II would be voluntary. Britain would not face discrimination if it remained outside.

However, he acknowledged

concern in the Bank of England over reports that banks based in countries out-

side the single currency zone could become "second class citizens" in dealing in the euro.

French and German bankers are understood to be pressing for tighter controls to be imposed on non-Euro denominated banks seeking access to Euro liquidity during the transition.

Mr Clarke said: "It's Eddie George, Bank of England governor, who has raised the matter after a meeting of EU central bankers last week. I would want to see the City of London treated on the same basis as Paris or Frankfurt."

Separately, Mr Jean Arthuis, the French finance minister, said politicians should be involved in the design of the new euro notes rather than leaving it to central bankers.

Mr Quinn agreed.

Mr Frowick said Ifor - which has a mandate to arrest any suspected war criminals who "come across" - should act more firmly. "It seems appropriate... for a decision to be made that would let Ifor move in to apprehend these people and bring them to trial," he said in Stockholm.

The British Foreign Office has invited senior diplomats from countries interested in Bosnia to a meeting tomorrow where various policy options, including renewed sanctions against the Serbs, will be considered.

Bruce Clark, London

Setback for Rühe as military spending is cut again

Kohl intervenes in row over defence budget

By Michael Lindemann in Bonn

An unusually vocal dispute between two senior German ministers about the size of Germany's defence budget - a dispute which featured a personal intervention by Chancellor Helmut Kohl - was yesterday papered over when it was agreed that the armed forces would get DM46.8bn (£30.6bn) to spend next year.

The figure represents a compromise between Mr Theo Waigel, finance minister, and Mr Volker Rühe, defence minister. It has been painstakingly agreed under Mr Kohl's supervision to help ensure that Germany's budget deficit next year does not exceed 3 per cent of gross domestic product as set out in the Maastricht treaty.

The 1997 budget nonetheless represents a considerable setback for Mr Rühe who has seen his budget dwindle significantly in recent years as Germany has been forced to find

more savings. He started out with DM48.2bn this year, but that was cut to DM47.6bn after Mr Waigel introduced a cap on government spending in March.

Mr Kohl has attempted to console his defence minister by assuring him that his budget will grow gradually in coming years so that by 2000 he would have DM48.5bn to spend. Mr Waigel had wanted the defence budget reduced to DM46.5bn and raised only slightly to DM46.8bn in 2000.

However, there are likely to be questions over the value of Mr Kohl's assurances, given that Mr Rühe was told - in writing - after the general election in 1994 that he would have DM46.8bn to spend every year between 1996 and 1998.

The defence ministry said yesterday a number of Franco-German weapons projects, including the Tiger attack helicopter and the Helios reconnaissance satellite, would have to be reviewed in the light of

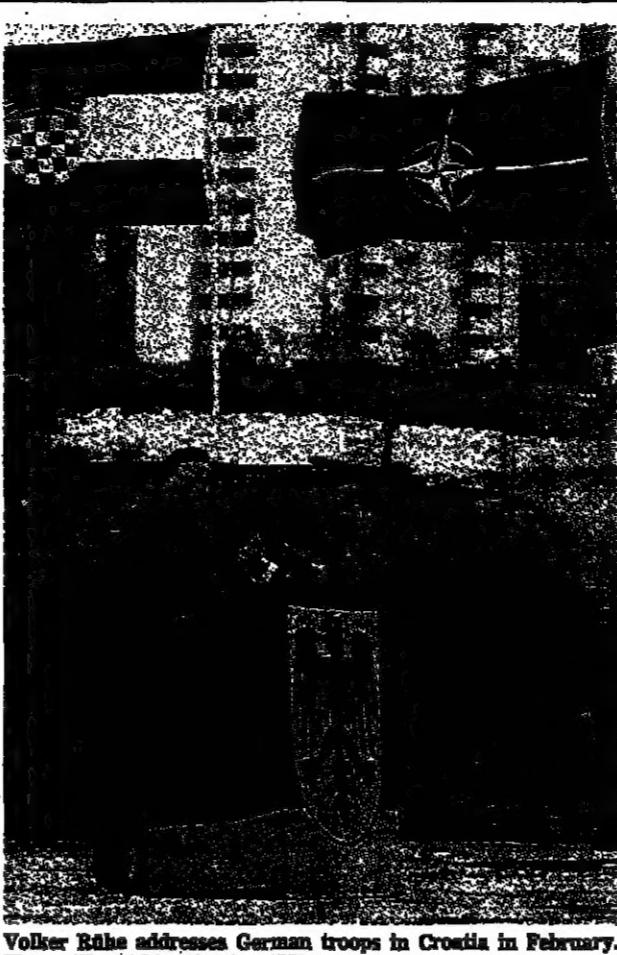
smaller defence budgets in both countries.

A final decision about the viability of these projects would be made at the next biannual Franco-German summit in the autumn.

In a weekend press report Mr Rühe had said that he regarded the NH90 transport helicopter, which is being developed with France, Italy and the Netherlands, as more important than the Franco-German Tiger.

Mr Rühe's real spending power on new weaponry for the Bundeswehr is also likely to be lower than the headline figure of DM46.8bn because he will have to find DM300m in the 1997 budget to finance German soldiers currently stationed in Croatia.

Mr Kohl had to call Mr Rühe to order last week after the defence ministry leaked a letter Mr Rühe had written to the chancellor warning him that the proposed budget cuts would have a drastic effect on the Bundeswehr.



Volker Rühe addresses German troops in Croatia in February. They will cost his ministry DM360m in 1997

Waigel takes a knife to spending

By Peter Norman in Bonn

The DM440bn (\$290bn) draft federal budget for 1997 by Mr Theo Waigel, the German finance minister, will present his cabinet colleagues tomorrow envisages cuts in 18 out of 23 individual government spending plans.

It is, therefore, an important part of the government's "programme for more growth and jobs". This was unveiled at the end of April with the aim of slimming down expenditure by Germany's federal, state and local authorities, as well as by the social security funds that meet the costs of pensions, health care and unemployment.

The entire programme, which includes tax changes and deregulation

in addition to spending cuts, is intended to make Germany more competitive in global markets.

Details provided by government sources in Bonn yesterday showed that Mr Waigel has succeeded in extracting the DM10m of savings from his departmental colleagues which were envisaged in the programme in April. Some DM5m alone will come from the ministries of economics, agriculture, transport and defence.

These departmental cuts will contribute to DM25m of federal savings next year, once they have been added to DM5.5m of savings to come from the federal labour office, a DM2.5m cut in federal payments to the state pension funds, DM3m of savings on personnel

costs that will result from staff cuts and next year's modest civil service pay rise, and a DM5m saving from a planned one year postponement of an increase in children's allowances.

Mr Waigel will tell the cabinet that the savings will come mainly from running costs, although federal investments are set to drop next year to DM30.5bn from an expected DM31.3bn this year and then hover around DM30.5bn in the period from 1998 to 2000 inclusive. The minister is expected to argue that the share of investment in overall spending next year will be in line with the average for the period between 1990 and 1995.

Investment in transport infrastructure will be largely maintained despite a 0.9 per cent drop in the federal transport ministry budget to DM450m thanks to increased revenues in this area.

Mr Waigel will also promise to keep a high level of transfers to eastern Germany to finance infrastructure investment. However, total federal transfers to the new Länder (federal states) will drop by about DM5m to DM300m largely because of reduced federal contributions to social payments such as unemployment pay.

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Another area of potential difference with the government is over privatisation proceeds.

The CGIL wants to see a sizeable part of income from state asset sales earmarked for job creation. The Treasury has been channelling this income

into a fund to amortise the national debt stock. The CGIL says it will press the government to come up with over £30,000bn (£13bn) to combat unemployment in the south, in part directed towards infrastructure projects.

Mr Cofferati, dubbed the sphinx because of his enigmatic smile, has proved an astute political operator while running the CGIL.

He helped to overturn the pension reform plans of Mr Silvio Berlusconi's government in November 1994 and exercised an effective veto on the economic policy of the subsequent government of Mr Lamberto Dini. He will now be the rallying point for those on the left who want to moderate the Prodi administration's plans to liberalise the economy and impose budgetary austerity.

Thus, they will have to start making the necessary moves now.

"They can only do it with this book," he added. "Or they will need considerably longer than two-and-a-half years."

"Germany will be ready," asserted Mr Hartmut Kneipholz, a director of the association, "I can't say how the other countries will do. We want to help make our private banks stronger in this time of increasing competition."

The book,

Guidelines for the

Currency

Changer

in

Banks

, has taken 15 months to prepare. It sets out the steps needed to take in such areas as domestic and foreign payments, bank card transactions, accounting, retail business, money market, foreign exchange and securities settlements, and electronic banking.

Each chapter contains a detailed checklist which banks can use for their own preparations which will vary according to their size and type of business. They will have to be ready for dealings in euros from the start of Emu, although national currencies will circulate in parallel until mid-2002.

The book will be translated

into

English

for

foreign

subsidiaries.

Banking associations in other countries have also taken an interest. For association members, the long-awaited book will cost nearly DM450m (£30m). Outsiders will have to pay almost DM1,000.

White

Deutsche

Bank

Dresdner

Commerzbank

are well advanced in their Emu preparations, attention has turned to the problems of smaller banks. To prepare for Emu, banks will have to devote up to a quarter of their data processing capacity to the task, said Mr Hans-Ulrich Gutschmidt, another association director.

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making the necessary moves now.

"They can only do it with this book," he added. "Or they will need considerably longer than two-and-a-half years."

The company said the decision had been taken for two reasons. First, because research had indicated that its subscribers would make more calls if they cost less; it was therefore "a real investment in growth". Second, as part of the process of making the company as competitive as possible in the run-up to the complete opening of the French telecoms market to competition in 1999.

The state-controlled company, in which a minority stake is

expected to be put up for sale early next year, said it thought prospective investors would welcome such moves to make its prices more competitive.

It said the cost of calls to 10 European countries would fall by up to 26 per cent. The 10 are the UK, Germany, Andorra, Belgium, Spain and the Canaries, Italy, Liechtenstein, Luxembourg, the Netherlands and Switzerland.

Trade unions said the cuts would be of more benefit to

companies than individual subscribers. David Owen, Paris

ECONOMIC WATCH

Slowdown in Belgian growth

Belgium's GDP rose 0.4 per cent in the first quarter of 1996 compared with the first quarter of 1995, and 1 per cent from the final quarter of 1995, according to the National Bank of Belgium. The quarter-on-quarter increase was broadly in line with expectations of a slowdown following the 1.8 per cent growth between the third and fourth quarters of 1995. The second quarter growth is expected to be stronger, following more optimistic business surveys from the central bank. But the bank still forecasts GDP growth of only 1.2 per cent this year. That could make it difficult for Belgium to meet its target of reducing the budget deficit this year to 3 per cent of GDP - one of the criteria for monetary union.

■ The EU's trade deficit with Japan fell to Ecu20.7bn (£25.7bn) in 1995 from Ecu21.8bn a year earlier, the Eurostat statistical service said. Exports rose 12.5 per cent to Ecu29.9bn from Ecu26.5bn while imports were up 4.5 per cent to Ecu50.6bn from Ecu48.4bn.

■ Italy posted a global trade surplus of L4.47bn (£2.91bn) in April compared with a year-earlier surplus of L3.61bn.

■ French M3 money supply grew 0.5 per cent in May after shrinking 0.9 per cent in April. The central bank said M3 grew 2.4 per cent year-on-year.

González acts to quell party rumblings

By Tom Burns in Madrid

Mr Felipe González, Spain's former prime minister, was yesterday forced to act to quell a revolt within the Socialist party, of which he has been undisputed leader for more than 20 years.

The Socialists' narrow defeat in the March 3 general election after a long stretch in power has prompted unprecedented calls for Mr González to step aside.

Senior party officials yesterday told a meeting in Madrid of the party's executive committee that criticism of the leader, let alone talk of replacing him, was not on the agenda.

The message followed a weekend circular from officials to all the party's regional associations warning against an internal debate and urging Socialists

to concentrate on remaining united to oppose Mr José María Aznar's centre-right government.

Mr González's pre-emptive action underlines how seriously he is taking the critical voices beginning to be heard in senior ranks. His supporters are surprised at how quickly the gloves have come off among the normally well-disciplined Socialists.

After the general election, the party looked on its leader as its saviour. During the campaign a double-digit lead by Mr Aznar's Popular Party had almost disappeared and Mr González, prime minister since 1982, was credited with having closed the gap.

But, since then, Mr Aznar, who has formed a parliamentary majority with nationalist parties, has been looking increasingly in charge. The Socialists,

meanwhile, have looked more and more uncomfortable in the face of a series of sleaze allegations dating from their years in power.

NEWS: EUROPE

Russian bank put into administration

By Chrystia Freeland
in Moscow

The Russian central bank yesterday took over one of the country's largest banks, provoking fears that the nation's fragile banking sector could be on the verge of a wider crisis.

Tveruniversalbank, ranked 17th in the country, will be under the administration of the central bank until September 1, when the authorities will review its position.

The former Soviet prime minister, Mr Nikolai Ryzhkov, leading Communist politician, was a senior executive at the suspended bank and some analysts said the Communist defeat in last week's presidential election had been the last straw for the highly illiquid bank.

The central bank has pledged to protect Tveruniversalbank's depositors, who have some Rbs520bn (\$106m) in the bank. The bank's assets are estimated at Rbs6.110bn.

Some 2,500 banks have sprung up since the beginning of market reforms. But economic stabilisation has come into the easy money of the early years of reform, bringing down the sky-high

rate of inflation which had nourished most of Russia's nascent banks.

Last week's re-election of President Boris Yeltsin dealt the banking sector a second blow, pushing down the stratospheric yields on government bonds which have been a main source of revenue this year.

"This could be a signal of the beginning of the banking crisis of which we have spoken for so long," said Mr Andrei Illyinov, director of the Institute

for Economic Analysis, a Moscow think-tank. "In the new conditions of low inflation, government bonds were the only source of easy profits for banks. Yields have fallen sharply now, so the entire banking industry could face a major crisis."

But Russian money markets, which ground to a halt last August following a severe liquidity squeeze, reacted calmly to the news. Russian bankers said Tveruniversalbank's suspension, on its own, was unlikely to cause intolerable difficulties for the rest of the market.

"It is unpleasant because Tveruniversalbank is one of the biggest traders on the market," a senior Russian banker said. But he added that it was not one of the big six or eight banks which dominate the financial sector.

Mr Tom Reed, an analyst at Alliance-Menatop, said one factor which had pushed Tveruniversalbank over the edge was its heavy trading in options, or promissory notes, issued by a dizzying array of Russian government and private institutions to ease the cash crunch that has depressed Russian industry.

Plan to save one of world's dirtiest towns

The one bit of good news for the environment in the heavily industrialised Azerbaijan city of Sumgait is the terrible news about its industry. Nearly every factory has had to close because of spiralling costs, a collapse of subsidies and the loss of once-captive Soviet markets.

For many who have suffered one of the most notorious environmental disasters in the former Soviet Union, this has delivered some relief, in spite of the loss of jobs.

And now a United Nations plan to resurrect Sumgait's economy brings hope of both jobs and cleaner air, but there are some formidable obstacles.

Sumgait, a city of 300,000 people about an hour's drive from Azerbaijan's capital, Baku, was set up before the second world war to take advantage of its proximity to Caspian Sea oil fields, producing petrochemicals, energy-intensive metallurgy and heavy equipment for the entire Soviet Union.

Dr Khalida Kulyeva, the town's head paediatrician, has the unenviable task of recording



There are 5m tonnes of toxic waste in Sumgait. It is stored in unorganised dumps. In some cases it is simply tossed into the street

the public health effects of Sumgait's factories.

Her statistics, compiled from hospital records, show a nearly eightfold increase in the rate of children born with birth defects in the town between 1970 and 1990. The percentage of children born prematurely nearly doubled, and the premature babies' mortality rate more than tripled.

The numbers add up to disturbing anecdotal evidence. "Gassanova Shara, 38 years old and a former worker in our aluminium factory, had five pregnancies. The first four ended in miscarriages. The fifth, her first live child, was born on March 26. It had a rupture in its skull and ruptures in its spine from which nerve tissue escaped. Its heart was deformed and its legs curved. It died within two days. She can no longer have children," Dr Kulyeva said.

And clean air or not, 5m tonnes of toxic waste have already accumulated in the town, said Mr Mamed Mamedov, head of the Sumgait city ecology committee, a government agency. Pointing to a map, he said: "These red circles are unorganised dumps... the waste is simply tossed into the street."

Indeed, in the blasted clearings that border the now silent bulk of chemical factories, heaps of junk are strewn haphazardly. Unmarked barrels lie rusting. Youths graze sheep

and goats among the wrecks. Many residents say their one hope is to get out of Sumgait. "Azerbaijan is my motherland, the motherland of my ancestors. But for them - the children - I must get out of here," said Mr Gamlet Nazarov, 61, who has already sent his wife to Russia.

"I want to sell the apartment, but the money I would get for it won't even cover our travel costs," he said.

The town hardly seems like a magnet for foreign investment. But that is precisely what the UN Development Programme and the Azerbaijani government have in mind with a plan for a "special economic zone". The 200-page plan, optimistically entitled "City of Tomorrow" and made public in a summary last week, calls for infrastructure overhaul and big tax incentives and subsidies to attract investors.

The plan's leading backer, the UN's resident co-ordinator, Mr Paolo Lembo, said the goal was to "halt a situation that was deteriorating into a state of collapse and apocalypse".

Mr Lembo said that although few of the particulars of the plan had been spelled out, interest from overseas investors was already high. Hundreds of foreign companies have looked at the project, he says, including the Bank of Austria, Siemens and Kaiser Engineering, which is exploring the possibility of resurrecting Sumgait's aluminium plant.

Investors will be expected to replace dirty, money-losing Soviet technology with new, cleaner and more efficient production methods. They will also be obliged to contribute to an environmental clean-up fund. But such a tax will have to be kept low to avoid undermining the incentives that will lure them there in the first place.

That leaves open the question of who will pay the hundreds of millions of dollars which Mr Lembo admitted would be needed to clean the place up fully. Mr Lembo said he doubted Ms Kulyeva's health statistics, but his report concedes that Sumgait has become "an unhealthy place to live".

Until something is done about that, any foreign companies opting to invest in the special economic zone may have to devise incentive schemes of their own, if they want to convince their managers to live in Sumgait.

Peter Graaff

Lebed faces Chechnya challenge

By Chrystia Freeland

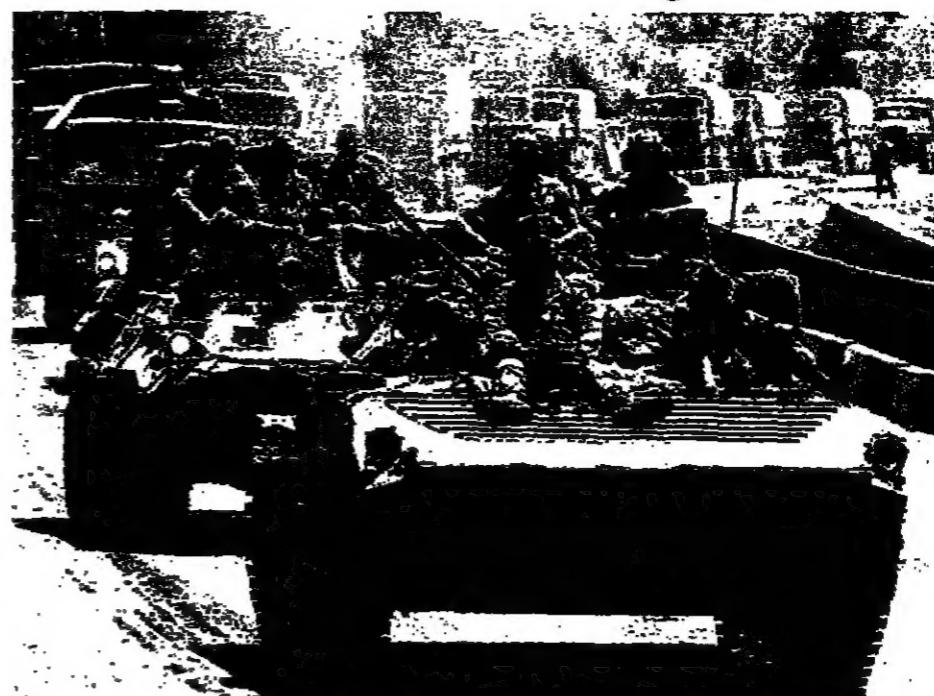
Mr Alexander Lebed, Russia's new security chief, yesterday sought to consolidate his position in the Kremlin, holding meetings with the president and prime minister and winning preliminary presidential approval for an extension of his authority.

But Mr Lebed's efforts to turn his third-place showing in the first round of the Russian presidential poll into a powerful role in the administration of President Boris Yeltsin ran into stiff opposition from senior Russian generals.

The boldest rebuff came in Chechnya, where General Vyacheslav Tikhomirov, the Russian military commander in the break-away republic, issued a bellicose ultimatum to Chechen separatists.

At a press conference at the Khankala military base outside Grozny, the Chechen capital, Gen Tikhomirov gave them 24 hours to hand over all their Russian prisoners. If the Chechens, whose own fighters are imprisoned by the Russians, failed to meet the deadline, Gen Tikhomirov warned that "the joint forces command will take appropriate steps against the bandits and will move to destroy them".

Gen Tikhomirov, who had earlier denied a report he was about to be transferred from



A Russian convoy near Grozny, the capital of Chechnya, where tensions have increased

Chechnya, was quoted by Itar-Tass news agency as saying separatist leader Mr Zelimhan Yandarbiye must make concrete proposals by today.

The number of prisoners held is unclear but some reports have put the figure at something over 1,000 on each side.

Gen Tikhomirov's threat has raised the tension in Chechnya higher than it has been at any time since Russian President Boris Yeltsin initiated peace talks in an effort to boost his chances for re-election earlier this year. The rebels signed a ceasefire with the Kremlin exactly four weeks ago.

Among its terms, the Russian army agreed to remove all its checkpoints around the region by last Sunday, and to withdraw all its troops by September 1. Both sides agreed to

the prisoner exchange and the rebels undertook to "demilitarise" the province. But since the signing, each side has accused the other of bad faith and sporadic clashes have continued. Gen Tikhomirov's tough talk has also revealed deep rifts within the military and suggests that Mr Lebed will have to tread cautiously as he seeks to carve out a role for himself.

Gen Tikhomirov is seen as a member of the hawkish faction in the Ministry of Defence, which suffered a setback last month when four of Russia's most senior conservative officials were sacked from the government.

Although it is difficult to pigeonhole Mr Lebed's political philosophy - he veers from crudely nationalist comments to moderate, liberal views the retired general has been an outspoken critic of the Chechen war from the outset. Mr Lebed had said he would travel to the war-torn region this week in an effort to broker a deal.

Gen Tikhomirov's comments are expected to complicate that mission.

The commander's aggressive stance has also underscored the rivalry and confusion which has beset the Russian military since the dismissal of defence minister Pavel Grachev last month.

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NEWS: WORLD TRADE

Delta urges veto on BA-American link

By Michael Stepinkier,
Aerospace Correspondent

Delta Air Lines yesterday became the first large US carrier to call for the proposed alliance between British Airways and American Airlines to be vetoed.

Several US airlines, including United, Continental and TWA, have indicated they are prepared to see the deal go ahead if they are, in return,

granted the right to fly to London's Heathrow airport.

But Delta said yesterday it accepted the UK government could not ensure increased Heathrow access for US carriers as the allocation of landing and take-off slots was governed by European Union law.

Mr Robert Coggan, Delta's executive vice-president, said: "The British government's argument that it has no power

over Heathrow slots is absolutely correct. It's not their domain."

Mr Coggan said that in the absence of a new mechanism to allocate Heathrow slots, the BA-American deal should be stopped.

"This is a bad deal. It is not a partnership that's going to foster competition. It concentrates too many resources in the hands of the two carriers."

The only other large airline

to express outright opposition to the alliance is Virgin Atlantic of the UK, with which Delta has a "code sharing" agreement, allowing the carriers to sell seats on each other's flights.

Mr Richard Branson, Virgin's chairman, was in Washington last month arguing against the deal.

In addition to its arrangement with Virgin, Delta has an alliance with Swissair, Aus-

trian Airlines and Sabena of Belgium.

But Mr Coggan said these alliances accounted for far smaller shares of the market than the BA-American deal, which will control 60 per cent of UK-US flights. Negotiations from the UK and the US are to continue talks in London next week in an attempt to conclude an "open skies" deal which would allow the BA-American deal to go ahead.

However, officials say the two sides are still far apart on the Heathrow slots issue.

The UK has said in negotiations so far that US carriers could gain access to Heathrow under EU regulations requiring half of new slots to be given to new entrants.

The US has said this is insufficient, and is pressing for the UK to find a way of guaranteeing access to its airlines.

'National' car plan presses on in Indonesia

By Manuela Saragosa
in Jakarta

Indonesia plans to deliver models of its "national" car to buyers in October, defying international criticism of the controversial car policy, which puts established investors in the country's automotive sector at a disadvantage.

Under Indonesia's national car policy Timor Putra Nasional, a company controlled by Mr Hutomo Mandala Putra, President Suharto's youngest son, has been awarded large tax and tariff breaks to produce the Timor - a 1,500cc sedan manufactured in co-operation with Kia Motors of South Korea.

The US, Europe and Japan have said the policy breaches tenets of the World Trade Organisation.

Mr Hutomo, who unveiled a prototype of the car yesterday, said Indonesia's national car programme "cannot be stopped". Some 50 Timor cars - made in South Korea and resembling Kia's Sephia sedan - have been imported and will go on display in Jakarta over the next few months before deliveries start in October.

Timor Putra Nasional has been given permission to import 45,000 built-up Timor cars tax and duty free from South Korea until June next year, provided Indonesian workers are involved in their production and the cars use a

certain amount of components made in Indonesia.

Mr Hutomo said the Timor will sell for Rp35m (\$15,000), about half the price of other sedan models in Indonesia. Timor Putra Nasional plans to assemble Timor cars in Indonesia in March next year.

The unveiling of the Timor was timed to pre-empt the launch of another national car, which is being manufactured by a company controlled by Mr Bamsoet Trihatmodjo, Mr Hutomo's older brother. Mr Bamsoet's national car, however, has not been awarded any tax and tariff breaks.

Citra Mobil Nasional, a subsidiary of Mr Bamsoet's listed holding company Bimantara, is due to launch two versions of its national car, manufactured in co-operation with Hyundai Motors of South Korea on July 23.

Mr Bamsoet has held discussions with Mr Tunku Arifin Bowo, minister of trade and industry, over the past few months to push for tax and tariff breaks similar to those awarded to his brother. But the minister has been reluctant to award "pioneer" status to another car manufacturer.

Nevertheless officials at Mr Bamsoet's company are optimistic. Talks were going on and it was "just a matter of time" before the company got tax and tariff breaks, said Mr Jongky Sugiantoro, Citra Mobil Nasional's president director.

Mr Peter Carl, the European

Union's chief negotiator, met officials of Japan's Ministry of International Trade and Industry in Tokyo yesterday following talks between the Commission and Japan at the Group of Seven summit of leading economic nations in Lyons.

This came as the US and Japan prepared to resume talks on renegotiating their existing bilateral agreement which expires at the end of a multilateral, not bilateral basis. They called for creation of a "Global Governmental Forum" to promote free trade in semiconductors and for exchange of information and discussion of government policies.

The forum would initially

contribute to such a scheme, or it would genuinely help the poorest economies.

Washington also says the proposal could create problems because at least two of the potential beneficiaries, Bangladesh and Kenya, are sizeable textiles exporters.

Special actions to remove barriers to their exports would require amendment of US plans for complying with a WTO agreement to liberalise trade in textiles, a timetable for which has been submitted to Congress.

Although the European Union broadly supports Mr Ruggiero's initiative, it seems unlikely that it could go ahead without US support.

By Neil Buckley in Brussels

The European Commission and Japan yesterday reached an understanding that a bilateral US-Japan pact on semiconductors should be replaced with a global inter-governmental forum.

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The forum would initially

comprise Japan, the US and the EU but would be open to other members. The touchstone of its operation would be respect for market principles - with markets, not governments, to determine market share - and consistency with World Trade Organisation rules.

A sticking point may still be Japan's insistence that the EU removes tariffs before any agreement can be signed. The Commission says it would be prepared to discuss lowering tariffs as part of an agreement, but does not accept removal of tariffs as a precondition.

Mr Carl said European chip producers only had a 1.5 per cent share of Japan's market, due to "pressure on Japanese buyers of foreign semiconductor manufacturers to purchase American-made semiconductors".

The US has been pressing

Tokyo to conclude a new "transitional" bilateral semiconductor accord when the existing deal expires on July 31. But Japanese trade officials have argued that the bilateral arrangement is no longer needed now foreign chip manufacturers have gained more than a 30 per cent share of Japan's microchip market.

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By Neil Buckley in Brussels

Union's chief negotiator, met officials of Japan's Ministry of International Trade and Industry in Tokyo yesterday following talks between the Commission and Japan at the Group of Seven summit of leading economic nations in Lyons.

Mr Carl said the two sides agreed that inter-governmental co-operation should be on a multilateral, not bilateral basis. They called for creation of a "Global Governmental Forum" to promote free trade in semiconductors and for exchange of information and discussion of government policies.

The forum would initially

comprise Japan, the US and the EU but would be open to other members. The touchstone of its operation would be respect for market principles - with markets, not governments, to determine market share - and consistency with World Trade Organisation rules.

A sticking point may still be Japan's insistence that the EU removes tariffs before any agreement can be signed. The Commission says it would be prepared to discuss lowering tariffs as part of an agreement, but does not accept removal of tariffs as a precondition.

Mr Carl said European chip

Backing for global chips forum

By Julian Ozanne in Jerusalem

Mr Benjamin Netanyahu, Israeli prime minister, formally appointed Mr Ariel Sharon, the ultra-nationalist former general to his cabinet yesterday hours before he left Israel for his first official visit to the US as prime minister.

Mr Sharon's appointment, which was approved by parliament yesterday, will anger Arabs and concern US officials who believe his powerful role in the government in the ministry of national infrastructure will further harm the fragile Middle East peace process.

In Washington Mr Netanyahu will come under pressure to explain to US President Bill Clinton and administration officials how he intends to pursue the paralysed peace process which the US has underwritten both diplomatically and economically.

Mr Netanyahu, who would much rather discuss his government's plans for sweeping reforms of the economy, is expected to outline a vision of a much slowed down peace process with a de facto freeze on negotiations with Syria and creeping, highly limited movement with Palestinians.

He will argue that the principle of land for peace, enshrined in United Nations resolutions, the foundation stone for peace efforts in the region, is not acceptable to his government.

He is expected to tell Washington that there are few prospects for a resumption of peace talks with Syria over return of the Israeli-occupied Golan Heights as long as Syria continues indirectly to back attacks against Israel by pro-Iranian guerrillas and further clamping down on terrorism.

He will also slightly soften his stand towards meeting Palestinian President Yasir Arafat, at some future point, and unveil plans to ease Israel's blockade of Palestinian areas. But he will not outline his gov-

ernment's intentions on the long delayed promise to withdraw troops from the still Israeli-occupied West Bank town of Hebron, a flashpoint of Arab-Jewish violence.

Mr Netanyahu's position is unlikely to satisfy the Clinton administration but the US president will be cautious in criticising the new prime minister ahead of US elections, on which the US Jewish lobby could have an impact. While in the US Mr Netanyahu will also meet members of Congress, leaders of the Jewish community and investment bankers in Wall Street.

Unity of apartheid's foes under strain

As President Nelson Mandela begins his first state visit to Britain today, investors who have long been wary of the historic alliance between his African National Congress and South Africa's trade unions are now wondering whether the ties are strong enough.

The week-old "wild cat" strike at Anglo American's Rustenburg Platinum Mine, the world's largest platinum producer, is a reminder that undisciplined action can be more of a problem than a strong union movement, which condemned the unofficial action.

Now the ANC government's recently released economic policy threatens to undermine both the influence and the self-esteem of the Congress of South African Trade Unions (Cosatu), the country's largest labour federation.

If Cosatu condones the austerity measures at the core of the government's strategy for growth document, such loyalty to the ANC could exact a heavy toll on the unions' influence beyond the ranks of their 1.4m membership, a minority of whom are black.

The fiscal targets announced on June 14 by Mr Trevor Manuel, finance minister, embrace the orthodoxyes of the World Bank and the International Monetary Fund with considerable fervour. In so doing, the government has largely rejected Cosatu's calls for more public spending, higher corporate tax rates and the mainte-

nance of exchange controls. Instead, the government plans to reduce the budget deficit to 3 per cent of gross domestic product by 2000, from 5.2 per cent this year.

The week-old stoppage at Rustenburg has united Amplats and the National Union of Mineworkers in condemning the strike by about 21,000 non-unionised workers. But to little avail. Their demand that the company repay their tax and national insurance contributions, has cost Amplats R100m (\$23m) and prompted the dismissal of the entire workforce of 28,000, including a large number of NUM members.

Amplats, which said it was willing to re-hire employees who agreed to return to work, said yesterday more than 3,000 had applied.

"Wild cat strikes are imminent

to the whole structure of industrial relations that the government has tried to build. They are becoming more and more rare," says Mr Stephan Malherbe, a policy analyst at Anglo American.

For all that, consensus between business and labour remains elusive. A recent survey by Andrew Levy and Associates, a Johannesburg-based labour consultancy, found the number of "man-days" lost through strike action in the year to date has increased four-fold to 400,000 since last year's record low. It predicts the rising trend will continue as euphoria in the wake of the all-race election of 1994 gives way to more material demands.

"The fundamental question is whether, given the history that we have, there can be a social partnership between business, labour and the government at all," says Mr Jayendra Naidoo, executive director of the National Economic Development and Labour Council, a tripartite policy forum for business, unions and the government.

Mr Manuel's argument is that austerity now will be rewarded with 1.35m new jobs and a fivefold increase in foreign direct investment to \$80bn by 2000. The unions have postponed their verdict on this "No pain, no gain" formula until later this month - which gives politicians time to lobby its historical allies in the anti-apartheid movement.

We are no longer second-guessing what the position of the government is. The fact that we don't agree does not mean we have to throw our hands up in the air and abandon our alliance with the ANC," says Mr Sam Shilow, Cosatu leader.

Many businessmen will agree. Reassured by the promise of tax incentives for investors, further trade liberalisation and steps towards the abolition of exchange controls, business leaders are keen to placate labour.

In his annual statement released last month, Mr Julian Ogilvie Thompson, Anglo American chairman, held out an olive branch to his union critics. Business had successfully lobbied the policy-makers, he said, but its contributions to the economic policy debate had been "too prescriptive" and

paid "too little attention to development issues". The comment may be scant consolation for the unions, but it would have been inconceivable a month ago.

Industrial relations will be critical to investor confidence, which is currently at a low ebb. Despite the fact that South Africa has an 18 per cent weighting in the International Finance Corporation's emerging markets index, foreign fund managers have limited their exposure to South Africa equities to an average 4 per cent of emerging market portfolios. And foreign direct investment has so far been disappointing.

The government's shift in the direction of favouring a policy of privatisation, signalled in statements made by Mr Mandela after his visit to Germany and in the growth strategy document, may prove an even more divisive issue as far as the unions are concerned. Levy and Associates predict the "stage is set for a showdown".

Privatisation is not a word Mr Manuel will use in public, preferring euphemisms about the "restructuring" of state assets.

But he is adamant that his fiscal targets, which for the first time include revenue from the sale of minority equity stakes in state-owned corporations, are "not up for negotiation".

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NEWS: THE AMERICAS

US Senate heads for minimum wage vote

By Jurek Martin in Washington

The US Senate yesterday headed towards a vote on the issue that has tied up Congress for weeks - the first increase in the federal minimum wage since 1989 - and along battle lines that mirror the House action at the end of May.

A crucial vote could come as early as today, with the main division not on raising basic pay from \$3.25 an hour to \$5.15, which will probably pass, but on an amendment exempting small businesses from having to pay.

President Bill Clinton has warned repeatedly that he will accept only a "clean" unconditional increase in the minimum wage and will veto any "poison pill" rider intended to mitigate its effect.

Organised labour and business associations have been lobbying strongly on the minimum wage, with each side targeting senators from both parties still uncommitted on the small business exemption.

As drafted by Senator Chris-

topher Bond, the Republican from Missouri, the amendment would free all businesses with less than \$500,000 in annual sales from having to pay the higher minimum, would permit them to pay new workers the old scale and delay the effective date of the overall increase until the start of next year.

The Clinton administration and congressional Democrats claim that this would render virtually academic any increase in the minimum wage and thus deny a necessary boost to the pockets of at least 1m working Americans.

While he was Senate majority leader, Mr Bob Dole, now the presumed Republican presidential nominee, blocked a no vote. But his departure for the full-time campaign trail and votes in the House approving the minimum wage increase and rejecting the small business exemption changed the political calculus.

Senator Trent Lott, Mr Dole's successor, and Senator Tom Daschle, the minority

leader, quickly agreed to schedule a division in the week after the Independence Day break.

The House vote in May were notable for the number of moderate and freshman Republicans, all up for re-election, who broke with party orthodoxy to back the increase.

The Senate is usually the more unpredictable chamber. This time, with only one third of its seats up for grabs in the November polls and with over half that number retiring, neither side is confident of victory on the Bond amendment.

Broadly speaking, the minimum wage debate has cut in favour of the Democrats, according to public opinion polls which have shown majorities as high as 80 per cent in favour of an increase. This explains Mr Dole's reluctance to risk defeat in a vote.

But now that he has distanced himself from Congress the potential damage to his presidential ambitions has probably also declined.

Former Clinton colleague seeks to lead Perot ticket

By Jurek Martin in Washington

Mr Richard Lamm, the former Democratic governor of Colorado, is expected to announce today that he is willing to become the presidential candidate of the new Reform party set up by Mr Ross Perot.

His bid, if nothing else, should have the effect of forcing Mr Perot, the 1992 independent candidate, to declare his intentions before the Reform party holds its two-city, two-part nominating convention in California and Pennsylvania next month.

It may also concern President Bill Clinton's re-election campaign as Mr Lamm could increase the Reform party's appeal to Democrats either as a candidate or as an active supporter of Mr Perot. His name, with Mr Perot's, is already on a

preference questionnaire sent to 1.3m party members.

Mr Lamm, Colorado governor from 1975-87 and a former close associate of Mr Clinton, switched to the Reform party last month, after a successful address in which he lamented the Democratic party's inability to adapt its New Deal social programmes to modern needs.

Once a classic if iconoclastic liberal Democrat, Mr Lamm now subscribes to most, if not all, of Mr Perot's cardinal points, ranging from reforms of the social safety net to the balanced budget. Mr Lamm's most recent crusade - for a moratorium on all immigration, legal and illegal - may not correspond with the Texas billionaires' views.

Opinion poll evidence suggests the Reform party will do less well this year than Mr Perot's.

Perot did as an independent in 1982, when he pulled in 18 per cent of the popular vote. But in big states, not least California and his native Texas, even 10-15 per cent could tip the balance in the favour of Mr Clinton or Mr Bob Dole, the presumed Republican nominee.

The great unknown is what Mr Perot will do. Before Mr Lamm came on board, Mr Perot's substantial ego had deterred other politicians disaffected with politics-as-usual from joining his cause. Even if he steps aside in favour of Mr Lamm it is doubtful that the party's official candidate would be given much rope. Last month the Federal Election Commission ruled that the Reform party would be entitled to about \$30m in federal matching funds this year if Mr Perot was its nominee.

Mr Bucaram named his Roldosista party after his brother-in-law, Mr Jaime Roldos, Ecuador's first civilian president after the military regime of the 1970s. An athlete and lawyer, Mr Bucaram started his political career in the Roldos government, but Mr Roldos was killed in an aircraft crash after governing for less than two years.

Mr Bucaram, whose grandparents emigrated from Lebanon, is set to be South America's second leader of Arab extraction, after President

Carlos Menem of Argentina. His career includes a short, stormy period as mayor of Guayaquil and then, after he was accused of fraud, voluntary exile in Panama.

His personal and political unpredictability has created a concern in business circles that will be difficult to dispel.

Referring to the country's economic management, Mr Bucaram said on Sunday: "The financial sectors should not worry, I shall maintain the present scheme without major changes."

Numerous prices of Ecuador's Brady bonds - the country's most widely traded asset - fell 5 per cent in London in reaction to his victory. The Ecuadorian currency, the sucre, also slipped.

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Sarita Kendall on an unpredictable president-elect

Ecuador's populist choice seeks to reassure business

Mr Abdala Bucaram has often said that Ecuador will sink or swim with him as president. The voters who gave him an 8 percentage point victory over the market-oriented Social Christian candidate, Mr Jaime Nebot, in Sunday's run-off election clearly believed the risk worth taking. Now, the 44-year-old populist has to try to meet the enormous expectations he stirred up during his theatrical electoral campaign.

Mr Bucaram's first statements as president-elect were designed to reassure, particularly the private sector, the military and the establishment he has attacked so furiously.

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TEARS OF JOY: Abdala Bucaram, left, celebrates news of his victory with son Jacobo

Clinton in dilemma over Cuba hijack

By Pascal Fletcher in Havana

A Cuban military officer has hijacked a Cuban commercial aircraft to the US navy base at Guantanamo Bay in the east of the island, posing an awkward problem for Washington.

According to US officials, a lone Cuban gunman, identified as Lt Col Jose Fernandez Pupo, forced the aircraft to land at the base on Sunday and asked for asylum in the US.

Under a bilateral immigration accord agreed on May 2 last year between Havana and Washington, Cubans who try to immigrate illegally to the US by sea or to the Guantanamo Bay base are to be returned to Cuba.

Mr Ricardo Alarcón, a member of the Cuban politburo, said the incident was a clear violation of international anti-hijacking agreements. It would also violate the bilateral immigration accord if the asylum seeker was not returned, he said. US officials made clear they were treating the incident as a hijacking.

The incident comes as President Bill Clinton is considering whether to enforce implementation of the most controversial part of a new law tightening US economic sanctions against Cuba.

Mr Clinton must decide before July 16 whether to delay enforcement of a provision of the Helms-Burton law allowing US claimants of nationalised Cuban properties to sue any foreign company judged to be "trafficking" in these properties in Cuba.

Republican backers of the law, as well as sectors of the big Cuban exile community in Miami, have been pressing Mr Clinton not to exercise a waiver to delay this provision of the law for six months.

The armed hijacking is also potentially embarrassing for the US because it has been lobbying the United Nations Security Council to condemn Cuba over the shooting down last February 24 by Cuban fighters of two US-registered small aircraft crewed by Cuban exiles.

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GENERAL DIRECTORATE
OF STATE RESERVES
Nr. 1022 Prishtina
Tirana 3.7.1996

INVITATION FOR BIDS

1. General Directorate of State Reserves has received a fund of 11,500,000 (eleven million five hundred thousand) USD, from the State budget and intends to purchase 50,000 tons of milling wheat.

2. General Directorate of State Reserves invites the bidders to participate in International Bid for purchasing of 50,000 tons milling wheat promptly.

3. Bidding documents may be purchased at General Directorate of State Reserves Tirana Albania for a nonrefundable fee of 150 USD for each set on the submission of a written application. Interested bidders may obtain further information at the same address.

4. Bids must be submitted to General Directorate of State Reserves no later than 25 August 1996, 15.00 local time at which the Bid will be opened in the presence of the bidders or their representatives.

5. The Bid security will be forfeited if a bidder withdraws his bid during the validity period or refuses to accept the award of the contract if selected.

CHIEF OF PROCUREMENT INSTITUTION
HEKURUN SKUDI

LEGAL NOTICES

IN THE MATTER OF
HOMEPOWER STORES LIMITED
(In Administration)

and in the Matter of the Insolvency Act 1986
NOTICE IS HEREBY GIVEN that a Meeting of Creditors to the above matter is to be held at the
Sheffield Miss House, Chesterfield Road
Sheffield S9 4PS on 23rd July
1996 at 2.00pm, to consider my proposals under
section 23(1) of the Insolvency Act 1986 and to
consider amending a Creditors' committee.

A proxy form if appropriate should be completed and returned to me at Arthur
Anderson, 1 Victoria Square, Birmingham,
B1 1BD by the date of the meeting if you
cannot attend the meeting in order to be entitled to vote at the
meeting you must give me notice, not later than
12.00 hours on the business day before the
date for the meeting details in writing of your
choice.

Arthur
Anderson
1 Victoria Square
B1 1BD
0121 222 1000

AMERICAN NEWS DIGEST

Hurricane Bertha strikes Caribbean

Hurricane Bertha, with gusts of up to 100mph, hit the US Virgin Islands yesterday, peeling off roofs, sending trees flying and causing minor damage in a violent downpour of wind-lashed rain.

It also struck the tiny Leeward islands with sustained winds of 85 mph at dawn, then swiftly pushed across the US and British Virgin Islands. By yesterday afternoon, it was expected to hit Puerto Rico. First reports indicated that there was no major damage from the first Atlantic hurricane of the season, but emergency shelters were opened, airports closed and electrical power turned off as a precaution on islands throughout the eastern Caribbean.

Reuter, St. Thomas

Peru navy in cocaine scandal

Peru's armed forces have been hit by a drugs-peddling scandal after two naval vessels were discovered to be carrying consignments of cocaine.

The ships were discovered within 48 hours of each other last week. The first, the cargo vessel Mataram, was boarded in Vancouver on July 3 after a tip-off. Some 45kg of high-quality cocaine were found and two crew members arrested.

The Peruvian naval high command ordered an immediate search of all its ships.

Two days later, another consignment, this time of 17kg, was discovered on board the Ilo, lying off Lima's port of Callao. The ship, which rarely goes to sea, is thought to have been used as a temporary warehouse for drugs awaiting transhipment. The captain and 32 crew were put under detention.

Criminal drugs organisations are believed to have stepped up their infiltration of the armed forces since airbase in northern Peru, the traditional route for export of cocaine to Colombia, is now relatively well controlled by US-employed radar. New drug routes out of Peru rely increasingly on land, sea and river transportation.

Sally Bowen, Lima

Clinton in fresh video testimony

President Bill Clinton has offered his second videotaped testimony for a Whitewater trial in 10 weeks. Mr Clinton testified for two hours and 20 minutes on Sunday in the case of Arkansas bankers Mr Herby Branson Jr and Mr Robert M. Hill. They are accused of illegally using bank funds to reimburse themselves for contributions to political candidates, including Mr Clinton in 1990 when he ran for governor, and in 1991 when he considered seeking the presidency.

A White House statement reiterated that Mr Clinton was not the first president to testify in a criminal trial. In April Mr Clinton testified as a defence witness for over four hours in the Whitewater trial of Arkansas Governor Jim Guy Tucker, and James and Susan McDougal, Clinton investment partners, all of whom were convicted.

AP, Washington

"Yes, the figures were totally wrong. We did give the agency the correct data but they don't seem to have been very professional," said the central bank.

Bean consumption has actually risen by a modest 1.4 per cent in Latin America's largest country since the start of the economic stabilisation plan. Beef sales rose 4.5 per cent and consumption of chicken increased 15.7 per cent - not 80 per cent as the advertisements said.

Reuter, Brasilia

Probably the best beer in the world.

NEWS: ASIA-PACIFIC

Japan current account surplus slips

By William Dawkins in Tokyo

Japan's current account surplus declined by just over 26 per cent in the year to May, a consequence of a continued surge in imports, further swelled by higher prices of foreign goods priced in the rising dollar.

The fall in the surplus, to Y361.2bn (\$3.26bn) according to preliminary data from the Finance Ministry, was a factor, along with investors' belief that US interest rates are about to go up, in another rise in the dollar's value against the yen yesterday. The US cur-

rency hit Y111.13 in Tokyo, the highest since January 1994 and 27 per cent above its level 12 months ago.

Investors' belief that the Bank of Japan may follow any rise in US rates, triggered a sharp fall in Japanese equities and government bond prices.

The Nikkei 225 index fell by 1.8 per cent to 21,924.94 and long-term bond yields rose to just over 3.3 per cent. Japan's trade gap is expected to continue to shrink, pointing to further yen weakness, said economists in Tokyo.

While a weak yen is welcome to Japanese exporters, because

it reduces the foreign currency price of their goods, the government yesterday voiced alarm at the recent sharp decline in the exchange rate.

"Whether it is a high yen or a low yen, steep moves are not good," said Mr Seiroku Kajiyama, chief cabinet secretary.

The yen-based current account gap has now shrunk for each of the past nine months. Last month's fall was slightly faster than the 4.52 per cent dip recorded in the year to April.

Within last month's balance, the goods and services account

swung to a Y84.8bn deficit from a Y32.9bn surplus in the same month last year.

It was the second consecutive monthly deficit in goods and services and was seen by the Finance Ministry as further proof of the depth of restructuring by Japanese companies, as they shift production to cheaper locations in Asia and re-export products back home.

Mr Tadashi Ogawa, vice finance minister - the top official in the ministry - said the downward trend of the surplus was "fairly clear" and reflected structural economic change.

Imports of goods from Japanese companies' foreign subsidiaries are expected to increase, added an official.

Imports of manufactured goods rose by 36 per cent to Y2,556bn in May - the 22nd monthly rise in a row - growing more than twice as fast as exports, up by 16 per cent, the 10th month of increase, to Y343.8bn.

The surplus on the merchandise trade account fell by 41 per cent in May to Y44.7bn, the 18th monthly decline in a row. At the same time, the deficit on the services account rose to Y61.7bn from Y40.9bn in the

Japan

Current account
Annual % change (yen based)

20

-20

-40

-60

-80

-100

Jul 1995

May

Source: Cabinet Office

same month last year, chiefly because of a sharp increase in tourist numbers going abroad, a consequence of Japan's economic recovery.

ASIA-PACIFIC NEWS DIGEST

UK Tibet move angers China

China condemned the British parliament yesterday over a planned visit by the Dalai Lama, Tibet's exiled spiritual leader, warning that Sino-British relations would be affected if the trip went ahead next week. During the one-week visit, the Dalai Lama is scheduled to address a meeting of some 200 MPs at the House of Commons, after which he will have a meeting with Mr Malcolm Rifkind, the foreign secretary.

"Tibetan affairs are purely Chinese affairs, which brook no interference by any foreign government organisations or individuals," a Chinese foreign ministry spokesman said. By offering the Dalai Lama a forum in Britain, the All Party Parliamentary Group For Tibet "is supporting and abetting the Dalai Lama's activities to split the motherland on British territory," the spokesman said. The Dalai Lama's visit to Britain, scheduled to begin next Monday - is the latest in a series of visits to European countries, all of which have been roundly condemned by China.

AFP, Beijing

Deng son-in-law loses army post

The son-in-law of Mr Deng Xiaoping, China's senior leader, has lost his key army post, Chinese sources said yesterday. Maj Gen He Ping has agreed to resign as director of the armament department of the People's Liberation Army under pressure from generals on the communist party's central military commission. Gen He, the husband of Mr Deng's youngest daughter and confidante Ms Deng Rong, was in charge of the Chinese military's arms and equipment purchases. Ms Deng, 46, is the author of the biography *Deng Xiaoping, My Father*, which was translated into several languages last year and which was the subject of Ms Deng's well publicised overseas promotional trip.

Gen He's fall illustrates the quickening loss of power of Mr Deng Xiaoping, 82, who will be 83 next month and is in declining health, observers said. For several years, he has been a target of China's old-school generals who have been critical of the growing ties between money and the army.

AFP, Beijing

South Korean MPs end boycott

South Korean President Kim Young-sam yesterday opened the National Assembly, ending a month-long boycott by opposition parties. The boycott had been called to protest at alleged abuses by the government in using law enforcement authorities, including prosecutors, to intimidate opposition politicians.

The opposition parties claim the government had threatened to prosecute some opposition MPs for alleged campaign violations during the parliamentary elections in April unless they joined the ruling party to provide it with a majority in the 299-member National Assembly. The ruling party won 139 seats in the election, but subsequently recruited another 12 opposition MPs to gain a slim majority.

John Burton, Seoul

Kim Jong-il leads mourning

In a sign that he retains control of North Korea, Mr Kim Jong-il (picture left) yesterday led a massive memorial rally in Pyongyang on the second anniversary of the death of his father, Mr Kim Il-sung, who established the North Korean state in 1948. Although Mr Kim has not formally assumed power since his father's death, speeches made by senior government officials praised the late president's son as the country's next leader. Most analysts expect that Mr Kim, who is now in command of the military, will not be officially appointed as the country's president and head of the ruling party until next July, which marks the end of the traditional three-year Confucian mourning period.

Mr Kim is using the extended mourning period to consolidate control of the government by appointing allies, most of them technocrats, to key positions. Analysts also believe Mr Kim may have decided that a formal transfer of power is inappropriate now because of food shortages in North Korea caused by floods last summer.

John Burton, Seoul

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1995=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

UNITED STATES

Retail sales volume, Industrial production, Unemployment rate, Composite leading indicator

Index value, Index value, Percentage point change, Index value

1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995

2nd qtr 1985 4.2 3.3 5.6 7.7 11.2 -0.8 4.7 3.1 104.9 106.0 100.0 100.0 7.1 100.0 88.7

3rd qtr 1985 4.5 3.0 5.8 7.8 11.0 0.5 1.8 3.2 106.1 107.6 103.4 102.2 6.2 126.9 88.8

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2018 2.1 0.8

COMPANIES AND FINANCE: EUROPE

Tele Danmark shares slip on profits warning

By Hilary Barnes
in Copenhagen

Tele Danmark, the state-controlled telecommunications company, yesterday warned that its first-half results would be hit by marketing expenditure on cellular phones and by price cuts in the cellular and international markets.

Shares in the group yesterday fell Dkr13, or 4 per cent, to Dkr235.

Tele Danmark said rising marketing costs for cellular phone subscriptions and handset sales would reduce profits before net financial items by about Dkr60m (\$84.9m) compared with the first half of last year. Price reductions for cellular and international calls would cut profits by a further Dkr100m, the group said.

A year ago the group reported first-half profits of Dkr235m, rising to Dkr4.3bn

for the full year. It did not specify its forecast for this year's first half, which will be boosted by the inclusion of profits on the group's 16.5 per cent share in Belgium's Belgacom on a pro rata basis with effect from April 1 this year.

Telia Denmark is exposed to fierce competition in both international traffic and cellular phones.

With the complete liberalisation of the Danish telecoms

market from July 1 this year, 18 months ahead of the European Union's date for the completion of telecoms liberalisation, the group is expected to face competition in domestic fixed line voice telephony as well before long.

Tel 3, a subsidiary of Sweden's Klinnevik group, has signed an interconnection agreement with Telia Denmark, enabling it to use the Telia Denmark infrastructure to

market a competing service. Several other operators, including Global One, set up by France Télécom, Deutsche Telekom and Sprint of the US, and Telia, the Swedish state-owned operator, are also interested in entering the Danish market.

Telia Denmark said cellular phone subscriptions were up 210,000, or 38 per cent, to 760,000 in the first half of this year, and by 67 per cent since the end of June

last year. All the growth has come in the market for GSM, the international standard for digital cellular telecoms standards. But marketing costs have soared from Dkr10m in the first half of 1995 to Dkr60m.

There are about 1.2m cellular phone subscribers in Denmark, representing one in four of the population. Telia Denmark claims 60 per cent of the market.

Telia awaiting EU deregulation

Swedish telecoms group looks abroad as competition mounts at home

As a state-owned operator in one of the world's most liberalised telecoms markets, Telia of Sweden is something of an anomaly. The former monopoly, which needs substantial investment to meet stiff competition from new rivals, has long been touted as a candidate for privatisation.

Following full deregulation at the start of 1993, Telia's once-closed market has opened to all-comers. Incursions by companies including British Telecommunications, Deutsche Telekom and France Télécom have led to falling margins at the Swedish group.

Telia has lost a quarter of its market for international calls and around 7 per cent of long-distance traffic. Only in local calls - where low tariffs make margins unattractive to competitors - has it held its ground.

Mr Lars Berg, Telia chief executive, is reluctant to be drawn into talk of privatisation, insisting it is an ownership matter.

Unofficially, though, management sees flotation as the best answer to Telia's capital needs - a view unanimously shared by industry observers. "Sweden is a very competitive market by European standards and you usually expect competition and privatisation to go hand in hand," says Mr Douglas Wight, European telecoms analyst at Salomon Brothers in London.

Telia has demanded a cash injection from the government

of up to SKr10bn (\$1.48bn) over the next five or six years, saying it can no longer fund internally its entire capital requirement of around SKr12bn a year.

"Our equity ratio is only 32 per cent and we think that in this new and more turbulent world we need a stronger balance sheet," Mr Berg says.

He can expect few favours.

Last year the Swedish company was forced to share with France Télécom a SKr12bn contract for telephone services to central and local government.

A state memorandum last month did contain a commitment to new, unspecified funding, but the Social Democratic administration appears to have balked at any sell-off. "Privatisation is not politically achievable in the current climate," one government official says.

Denied free access to most European markets and unable

to raise capital independently, Telia's hands are tied. It has sought to compensate by doubling prices for local calls since 1993, but this has been more than offset by a 50 per cent fall in tariffs for long-distance calls. Pre-tax profits were SKr3.23bn in 1995, against SKr3.95bn in 1994. However operating income fell from SKr1.3bn to SKr1.6bn.

For Mr Berg, the deregulation of European telecoms markets in 1996 cannot come soon enough. Since arriving from telecommunications equipment group Ericsson two years ago, he has worked to orient Telia towards a commercial market. The workforce has been cut by more than a quarter since 1991, from 46,000 to 33,000, as part of what Mr Berg terms his "cultural revolution".

"We are under a great strain but hopefully this will mean that after 1996, we will come

out as a very lean and mean player which has learned to live with the competition. That will not be true for many of our European competitors," he says.

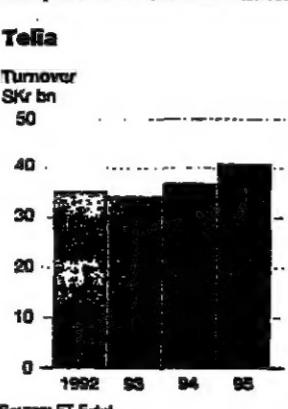
Faced with contracting margins and slack domestic growth, he has focused Telia's strategy on opportunities abroad. Unisource - a joint venture with the national operators of Spain, Switzerland and the Netherlands - has formed a vehicle to offer data and telecoms packages to mainly corporate clients in Europe.

The alliance, which collaborates with AT&T of the US, is aiming to develop a national operating presence in the main European markets - the UK, Germany, France and Italy - ahead of liberalisation.

In addition, Telia has licences for fixed telephone services in the UK, and has established or planned operations in Norway, Denmark, Finland, Ireland, Poland, Estonia, Latvia and Lithuania. On the mobile side, it has a presence in countries as far-flung as Sri Lanka and Ecuador.

Mr Berg's hope is that foreign growth and the booming mobile sector will plug the gap from the Swedish fixed market. Cellular revenues now account for 25 per cent of turnover and aggressive marketing has helped Telia retain a 70 per cent market share, despite the challenge of three other mobile operators.

Mr Berg predicts continued robust growth in this sector,



Long distance: Telia is seeking entry to main European markets

forecasting that nine out of 10 customers in Sweden will be mobile users by 2001.

He also has high hopes for Telia's drive to deliver broadband services to all Swedish households by 2004 using asymmetric digital subscriber line (ADSL) technology.

Mr Berg sees a "superinternet" comprising digital TV, interactive entertainment and electronic shopping. The network, undergoing trials in Stockholm, is likely to cost in excess of SKr25bn to build.

However, the initiative has raised some eyebrows. "Telia is

the only telecoms company in the world that is fully committed to ADSL," one London-based analyst says.

"You could say that they are looking to the future but the research is showing that the investment is marginal because people don't pay enough for the service."

Mr Berg brushes off the objections. In the competitive world of tele- and data communications, he knows that if Telia does not take the plunge, a rival company will.

Greg McIvor

Burda withdrawal puts Europe Online future in jeopardy

By Neil Buckley in Brussels and Simon Gray in Luxembourg

The future of Europe Online, the multilingual online service, was in question last night after Burda, the German publishing group which is its largest shareholder, said it was withdrawing from funding the venture.

The Luxembourg-based company said it was holding talks at an "intensive level" with new potential partners, thought to include Compu-

Serve, the US online group, and was engaged in a "major restructuring process" which would involve changes in shareholding structure.

Europe Online said Burda, which holds a 26 per cent stake, plus another 7 per cent in trust, had made "no decision" on the future of its shareholding.

Burda said it had decided to "change its online portfolio", and concentrate on Internet content production, particularly in the German market, and therefore decided to stop further financing of Europe

Online. The German group is thought to have provided about DM30m (\$19.6m) in financing to date.

It refused to comment on reports that it would today seek to appoint an administrator in the Luxembourg Commercial Court.

Burda said it had decided to "change its online portfolio", and concentrate on Internet content production, particularly in the German market, and therefore decided to stop further financing of Europe

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building up

JULY 9 1996



In Europe, no one carries more weight in the world financial market than the new Chase client.

Banking, at its essence, is about a total commitment to anticipating and serving client needs. That's exactly what the new Chase is about—combining the strengths of two institutions that in all their years of existence have had a history that revolves around client relationships. And now that we're bigger and stronger, we want to make sure you know that we will leverage our global strengths and leadership positions across a breadth of global products to focus more on our clients than ever before.

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*First Row: Demetrie G. Comnas, Bill Lawes, Mark Garvin, Herb Asbury, Bruce Hannon, Tom Swayne, Homi Mullan, Don McCree, Isak Antika, Georges Vergnon
 Second Row: James G. Murray, Karen Peetz, Richard Smith, Paul J. Maloy, Thomas D. Hoppe, John Knight, Rainer Gebbe, Jose Garay, Federico Imbert, David Adamson, Jean-Olivier Bartholin, JoAnne Taylor
 Third Row: Mark Babunovic, Alan Badanes, Cheryl Boucher, Satu Jaatinen, Betsy Nelson, Elaine Devenish, Judy Welch, David Brown, John Dean, Mahmoud Difrawy, Michael L. Ellison
 Fourth Row: Nadeem Fayyaz, Mary Beth Fender-Miett, Jackie Gillan, Robert Hinaman, Rachael Hoey, Julie Jakobek, Jeremy Jewitt, Nadine Lagarmittie, Brian C. Lazell, Ray Morison, Andrew D. Panzures, Brian Scammell
 Fifth Row: Robin Saunders, Colette Seifilagh, William A. Semmes, Yawar Shah, Karen Simon, Stephen W. Solomon, Guy Spaul, Rob Standing, Sergei Boboshko, Anne E. Whitaker, John Wigzell*

COMPANIES AND FINANCE: THE AMERICAS / EUROPE

Brazil-Bolivia gas pipeline plan moves forward

By Jonathan Wheatley in São Paulo

Long-delayed plans to build a pipeline to carry natural gas from Bolivia to Brazil have moved forward following an agreement between Petrobras, Brazil's government-controlled oil company, and Comgás, the São Paulo state gas distributor.

The agreement follows talks between presidents Fernando Henrique Cardoso of Brazil and Gonzalo Sanchez de Lozada of Bolivia at which the two leaders agreed to give the project their full political support.

The move ends a dispute over charges that Comgás and other state distributors in south-eastern Brazil will pay to Petrobras, and should help Petrobras to raise finance for construction of the pipeline budgeted at US\$2bn.

A formal contract is expected to be signed within the next month. Under the deal, Comgás will pay for 55 per cent of the supply of gas guaranteed by Petrobras, whether it uses it or not, rising to 85 per cent after 10 years. Petrobras originally demanded payment for 100 per cent of capacity.

Petrobras has held firm on price: Comgás will pay \$2.60 per million BTUs (British thermal units) for gas from Bolivia, compared with about \$2.37 per million BTUs for Brazilian natural gas.

"This should make it easier for distributors in other states to reach similar accords," said Ms Ieda Corrêa Gomes, president of Comgás. The company expects to buy half the gas supplied by the pipeline, scheduled to enter operation at the end of 1998, delivering 8m cubic metres a day, rising to 16m cubic metres a day.

Mr Antônio Luiz Menezes, a director at Petrobras responsible for the pipeline, said the deal would help efforts to raise finance for the project.

"This makes the pipeline all the more viable and will certainly help in our talks with the banks," he said.

However, analysts said doubts remain about pricing levels.

"The price of natural gas is tied to fuel prices that are 20 per cent above international averages," said Ms Ana Cequeira of Brazilian investment bank Icati. "It is hard to see how you can raise finance for a project based

on unreal prices in an opening market."

According to an agreement signed by Brazil and Bolivia in 1993, a financial package for the pipeline should have been agreed by August 1994. Mr Francisco Moura of Brazil's foreign ministry said the two presidents discussed the pipeline at a meeting in late June and agreed that the framework for a financial package would be established by August 17.

"Nothing was put on paper, but they agreed to add a political impetus at the highest level," he said.

Alestra still waiting to make connection

An alliance to compete with Telmex is stuck in the formative stage, says Daniel Dombey

The formation earlier this year of a new company to take advantage of the liberalisation of Mexican telecoms must have worried executives at Telefónica de México (Telmex).

The newcomers - which include AT&T, GTE and Telefónica Internacional of Spain - promised that their fledgling company, Alestra, would give the established carrier formidable competition when it lost its long-distance monopoly this year.

Moreover, they said, all of the services provided by Alestra would be marketed under the AT&T name, which compares well with Telmex's mixed reputation.

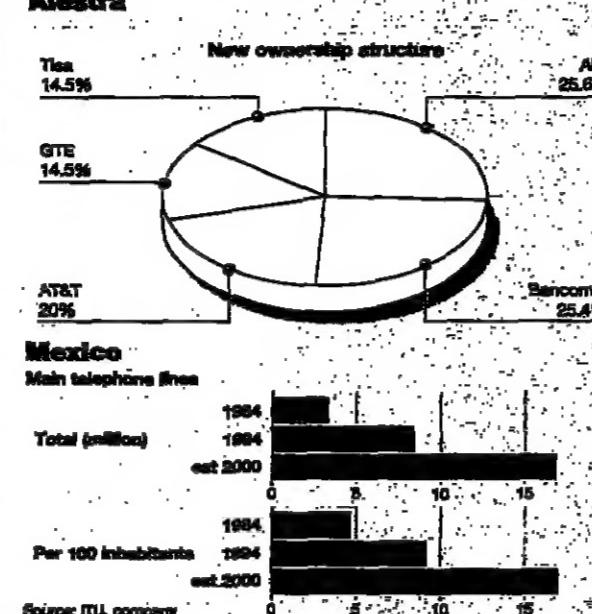
Two months on, despite a massive advertising offensive by Alestra, the picture is a little different.

The new alliance's legal status has yet to evolve beyond a letter of understanding and the company has been relatively slow in building infrastructure. However, Alestra's bosses are confident that consumers will wait for its services to be ready.

"We represent the highest quality brand in world telecommunications," says Mr Jorge Escalona, Alestra's chief executive. "We are not going to put our quality at risk to be ready [earlier]."

Some of the problems of preparing for competition are due to the company's intricate structure. In its original form, Alestra matched up AT&T and

Alestra



Source: ITU, company

being shouldered by Alfa and AT&T alone.

"I would not be surprised if things did not work out. These are pretty strange bedfellows," says Mr Patrick Junczak, head of Latin American research at Nomura Securities in New York. "But an AT&T and Telefónica International alignment would be very powerful if it went ahead."

When the alliance was announced, the companies committed themselves to investing \$1bn in the long-distance sector and \$1bn in other areas, such as cellular and local services for corporate clients. An element of doubt will remain over the investment plans until the merger is made concrete.

Alestra has built only a quarter of the 4,600km fibre optic network it wants in place for the opening of the long-distance market. Its competitor Avantel, a joint venture between MCI and Banamex, Mexico's largest bank, has all but finished its own, similar

long-distance sector and \$1bn

in other areas, such as cellular and local services for corporate clients.

An element of doubt

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plans until the merger is made concrete.

Alestra will be willing to wait for Alestra, even if that means switching from another of the new carriers. Many people, he thinks, will be swayed by name recognition of AT&T.

The company's services -

such as virtual private networks, Internet access and calling cards - are also likely to be promoted through Alestra's network of associated groups, which not only include Bancorner, but also feature leading breweries and soft drink franchises.

Such exposure could com-

pete for slowdown in building

infrastructure this year.

The company certainly hopes so. "I think it is great if our

competitors really believe that

we will not be ready for competi-

tion on January 1, 1997," Mr Escalona says. "Terrific."

Tandy warns of heavy fall in profits

By Richard Tomkins
In New York

Shares in Tandy, the US consumer electronics retailer, fell 33% to \$41 in early trading yesterday after the company warned profits would be heavily down in the second quarter to June, even excluding a restructuring charge.

Also, although Telmex lost its long-distance monopoly on August 11, it will not be until next January 1 that its new competitors will be able to pass long-distance calls through its local network.

According to Mr Escalona, customers will be willing to wait for Alestra, even if that means switching from another of the new carriers. Many people, he thinks, will be swayed by name recognition of AT&T.

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network of associated groups,

which not only include Bancorner,

but also feature leading

breweries and soft drink fran-

chises.

Such exposure could com-

pete for slowdown in building

infrastructure this year.

The company certainly hopes so. "I think it is great if our

competitors really believe that

we will not be ready for competi-

tion on January 1, 1997," Mr Escalona says. "Terrific."

Shares in Tandy, the US consumer electronics retailer, fell 33% to \$41 in early trading yesterday after the company warned profits would be heavily down in the second quarter to June, even excluding a restructuring charge.

It blamed the fall on weak revenues, saying sales at stores that had been open a year or more were 2 per cent lower in June than they were a year earlier.

Tandy has about 6,800 Radio

Shack stores selling electronic

goods, 103 Computer City

stores selling personal com-

puters and 16 Incredible Uni-

verse superstores selling com-

puter, audio and video

products.

In last year's second quarter

it made net profits of \$35m or

55 cents a share. Analysts had

been looking for 50 cents a share in the latest quarter.

However, in May, Tandy

warned it would take a restructure charge of \$22.5m

before tax, or 36 cents a share,

in the second quarter to cover

the cost of streamlining the

Incredible Universe division,

including the closure of two

stores.

Yesterday the company said

that second quarter earnings

would be 30 per cent below

those for the comparable

period, excluding the restruc-

turing charge, because sales

had fallen below budget.

NEWS DIGEST

Cost-cutting set to benefit Bell Canada

BCE, Canada's biggest telecommunications group, says its Bell Canada telephone utility should earn C\$850m (US\$640m) in 1997 on revenues of C\$9.5bn, benefiting from a tough cost-cutting programme to reduce its overall payroll by 10,000 by the end of 1998. BCE, in a regulatory filing, said most of the financial turnaround will come from restructuring rather than local service rate increases granted for 1996-97.

Bell Canada earned C\$550m for a rate of return of 6.7 per cent in 1995. The projected rate of return for 1997 is 12.9 per cent, or around historical levels. Bell had been subject to heavy long distance competition and price-cutting and the upturn in earnings will have an impact on BCE directly, as Bell Canada is a 100 per cent-owned subsidiary.

Robert Gibbons, Montreal

Canadian M&A deals still high

Canadian mergers and acquisitions totalled 271 deals worth C\$12.5bn in the second quarter, against 230 deals worth C\$8.8bn a year earlier, according to Crosbie, the Toronto merchant bankers. The 1995 period included Seagram's divestment of almost 25 per cent of DuPont and the acquisition of MCA. First-half deals totalled \$20.2bn worth almost C\$350m, against 450 worth C\$43.3bn a year earlier. The continuing high level of deals is attributed to globalisation, fast-changing technology and lower interest rates.

Robert Gibbons

BBV seeks Peru telecoms stake

Banco Bilbao Vizcaya, the Spanish bank, plans to invest \$100m (\$78m) to acquire "at least" a 15 per cent stake in Telefonica de España's unit Telefonica del Peru, according to reports citing BBV managing director, Mr Javier Echenique. The acquisition comes within the framework of BBV's new strategy aimed at diversifying its foreign activity in those countries where it already has a banking network. BBV operates in the Peruvian market through its unit Banco Continental.

AFX, Madrid

Schering Plough cancer move

Schering-Plough of the US has received patent protection from both US and European patent offices for the use of its p53 gene therapy in the treatment of cancer. Schering-Plough is developing new cancer treatments based on its unit Canji's proprietary scientific discoveries with p53 gene therapy technology. Schering-Plough said it expects to begin clinical trials of p53 gene therapy this year.

Reuter, New Jersey

Rio Algom in Antamina bid

Rio Algom and Inmet Mining, the Canadian mining group, have said they had submitted a joint bid to CEPRI-Centromin Peru in a public auction for the Antamina property in Peru. They said the winning bid would be announced after all the bids were opened and made public on July 12. Rio Algom and Inmet participated equally in the sealed bid, they said.

The Antamina property, located 482 km north of Lima, hosts a partially-defined copper/zinc deposit with proven and probable reserves of 12.8m tonnes grading 1.61 per cent copper, 1.88 per cent zinc, 17.7 g/t silver and 0.04 per cent molybdenum with upside potential. Further drilling is needed to define the potential of the ore body, which is open in several directions, Rio Algom said.

Reuter, Toronto

Hungarian share issue well received

By Nicholas Denton

Heavy demand for a share issue by TVK, the Hungarian chemical producer, has revealed the growing appeal of central European equities to mainstream as well as specialist western investors funds.

A further 10 per cent of TVK is allocated to employees, and 2.5-5 per cent will be offered to the Hungarian public from July 16. This could add a further \$30m to the offer size, giving a total of \$150m.

Most privatisations in eastern Europe have occurred through the almost free distribution of shares to the public, management buy-outs or trade sales to western industrial companies in the same sector. But the return after the initial public offering of Hungarian shares to emerging markets

has lifted Hungarian, Polish and Czech stockmarkets in 1996, and improved the climate for privatisations through equity offerings.

The Mol deal in November 1995 was cut back due to lack of industry demand, but a recent offering by Cofine, a central European packaging company, garnished gross demand of \$650m, a record for the region.

While earlier equity issues were taken up predominantly by investment funds dedicated to the region, and in 1994 by speculating hedge funds, Cofine and now TVK have attracted a wider range of investors.

CS First Boston said the maturity of the central European equity markets was reflected in the "ever-growing" range of investors manifested by the TVK transaction. It is understood the investors in TVK include mainstream US and UK pension and mutual funds.

TVK has also attracted institutions which invest in privatising state-owned companies. Privatisation funds, such as those run by Kleinwort Benson Asset Management and Mercury Asset Management, had previously focused on western European privatisation offerings.

The depth of western demand for east European shares will be tested in the public offering of KGHM, in which \$500m of shares - about 25 per cent of the Polish copper producer - are to be sold to western institutions.

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COMPANIES AND FINANCE: UK

Tomkins pledges cash for new US arm

By Tim Burt

Tomkins, the industrial conglomerate, has pledged to use almost £400m (£834m) cash to make bolt-on acquisitions and develop Gates, the US components group it is acquiring for \$1.77bn.

The company - which yesterday reported pre-tax profits of £32.5m (£30m) on reduced sales of £3.6bn (£3.7bn) for the year to April 27 - said it was considering acquisitions in each of its six divisions and was keen to increase Gates's

sales in emerging markets.

Once the all-paper acquisition has been completed, Gates should become Tomkins's largest division by sales volume and will significantly increase the proportion of profits made in North America.

Mr Greg Hutchings, chair-

man, said Tomkins was determined to improve last year's 7.4 per cent operating margins at Gates, which reported underlying operating profits of £75.4m (£50.1m) for 1995.

He confirmed that Tomkins believed it could extract saving

of up to £250m over three years by better management of stocks and improved financial controls at the Colorado-based company.

"They've lacked motivation to make the most of their assets," he added.

Mr Hutchings said he wanted to apply the same financial controls that have led to a 30 per cent increase in margins over the past three years at the Ranks Hovis McDougall, the foods, milling and baking business acquired for £990m in 1992.

Of the group's £303.2m operating profit last year, food products contributed £26.1m (£8.9m) and milling and baking £28.8m (£32.9m).

Improved contributions from those divisions helped offset a sharply reduced profits in professional, garden and leisure products, which fell from £67.3m to £58.8m.

Mr Hutchings blamed the shortfall on depressed sales of its Murray lawnmowers in the US, where demand was held back by inclement weather.

Profits, nevertheless, rose

from £37.4m to £40.7m in fluid controls and from £18.9m to £23.7m in services to industry.

Improved contributions of £89.4m (£85.8m) in industrial products also helped lift net cash by £105.5m to £394.5m.

Earnings per share rose from 17.9p to 18.8p, or from 17.4p to 18.7p after allowing for the exercise of all outstanding options.

Mr Hutchings announced a final dividend of 7.25p (£2.25), making a total of 9.55p (£3.55).

The shares rose 3p to 251p yesterday.

Tesco eyes Docks de France

By Christopher Brown-Humes

Tesco, the UK supermarket group, is understood to be considering a white-knight intervention in the battle for Docks de France, the French retailer under siege from the privately-owned Auchan group.

A move could cost the UK group up to £2.5bn (£3.5bn) and would almost certainly involve a big rights issue. But it would give the company the critical mass it has been seeking in France following its acquisition of Cattau, the French retail group.

"The idea of Tesco moving for Docks de France is far from fanciful," said one company adviser. "The market has always thought that Cattau would be augmented with another acquisition."

Tesco's interest follows Auchan's FFr17bn (£2.1bn) hostile bid for Docks de France two weeks ago at FFr1.250 per share. Docks de France is a quoted retail company best known for controlling the Mammoth supermarket chain.

Tesco has made it clear it wants to continue expanding in France and eastern Europe, where it has already invested £340m. It bought Cattau, which has 120 stores, in May 1993 but the French unit's performance has been disappointing.

Tesco is under pressure to move quickly because of the rapid restructuring of the retail French market. Consolidation is being driven by tough restrictions on large retail developments and an increasing shortage of acquisition opportunities.

But one hurdle could be the UK group's UK rival Sainsbury, which has an alliance with Docks de France and two other European groups.

Mr Paul Smidt, analyst with Credit Lyonnais in London, said: "It's too big, too soon to be ideal for Tesco. The company still hasn't got a sufficiently good growth record at Cattau." He suggested it might be easier for Tesco to buy some stores from Auchan if the latter's bid was successful.

LEX COMMENT Hanson

Hanson's skeletons are rattling out of its cupboard at a rapid pace as it completes its pre-demmerger spring clean. Following hard on the heels of a cut in the future dividend, and a reduction in earnings from accounting changes, Hanson yesterday introduced a £3.2m write-down in its asset value. The reductions at Hanson's Peabody and Cornforth subsidiaries are a response to a new US accounting policy.

But it would give the company the critical mass it has been seeking in France following its acquisition of Cattau, the French retail group.

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ASTIKA AKINITA

INCORPORATED COMPANY OF REAL ESTATE CONSTRUCTIONS TOURIST AND RELATED ENTERPRISES

REPEAT PUBLIC CALL FOR TENDERS FOR THE SALE OF THE ASSETS OF THE "MARTIN BEACH" HOTEL UNIT

"ASTIKA AKINITA S.A." (43 Panepistimiou str., 105 64 Athens), under its capacity as special liquidator, by virtue of Judgements nos. 593/1984 and 229/1986 of the Larissa Court of Appeal, of the assets of the hotel unit under the title "MARTIN BEACH" (hereinafter referred to as the "Enterprise") which is owned by the incorporated company "MARTIN BEACH HOTEL S.A."

JUDGEMENTS

A repeat public call for tenders with sealed, binding offers, for the sale of the assets of the "Enterprise" which have come under special liquidation by virtue of article 46a L. 1892/1990.

ACTIVITIES AND BRIEF DESCRIPTION

OF THE COMPANY

The above unit is owned by the incorporated company "MARTIN BEACH HOTEL S.A." which was established by act no. 10.077/16.1.1986 of the Athens notary public K. Giannousis. The head offices of the company according to its articles of association is the Municipality of Skiathos, Prefecture of Magnisia. The company operated the hotel unit until the issue of the above judgments by the Larissa Court of Appeal, whereupon it came under special liquidation as provided by article 46a L. 1892/1990 and the company ASTIKA AKINITA S.A. was appointed special liquidator.

The hotel unit under sale belongs to Hotel Class B and has a capacity of 41 rooms - 88 beds. It is located at Tzanierei, Ido of Skiathos, at a distance of approx. 4.5 km. from the town, in a site with total area of 4,986.46 sqm. The hotel complex consists of two (2) main buildings-wings covering a total constructed area of 2,230 sqm, plus terraces and semi-covered areas, erected on fifteen different levels in line with the considerable natural inclination of the ground.

INVITES

all interested parties to receive an offer memorandum, and submit a sealed, binding offer accompanied by a letter of guarantee by a Bank operating lawfully in Greece, for the sum of forty million Drachmas (Drs. 40,000,000) with the contents described in the offer memorandum.

CONDITIONS

1. The public call for tenders will be carried out in accordance with the provisions of article 46a, L. 1892/1990 which was added to the law by virtue of the provision of article 14, L. 2000/91, as amended, modified and applicable, the terms included in the present call for tenders and the terms of the offer memorandum, which interested parties may obtain after submitting a pledge of confidentiality in writing.

2. In order to participate in the call for tenders, interested parties are invited to deliver a sealed, binding offer in writing by 11:00 Tuesday, July 30, 1996 to the Skiathos notary public Christos K. Giassagias, 28 Papadiamanti street, 370 02 Skiathos, tel: (0427) 2.2222, fax: (0427) 2.1998.

3. The offers and the letter of guarantee must be delivered in a sealed, opaque envelope by the interested party in person or by a duly authorized representative.

4. The offer must mention clearly the amount offered for the purchase of the hotel unit of the "Enterprise" and must not contain any terms, options or vague phrases which might create uncertainty as to the amount, the manner of payment of the sum being offered or other matters related to the sale.

5. Offers delivered after the expiration date will not be accepted and will not be considered. The binding nature of the offers will apply until the award of the consideration.

6. The assets of the "Enterprise" and all the secondary fixed or current attributes of which they consist, such as real estate, moveable objects, claims, name, title, rights, etc. will be sold and transferred "as and where they are", i.e. in their real and legal condition and at the place where they are located on the date of signing the contract of sale.

Interested parties may collect offer memorandums and receive other information from Mr. George E. Polimenidis and Mr. Alexandros Meggios, 43 Panepistimiou str., 105 64 Athens, tel. nos: 326.5113 and 326.8080, fax no: 326.5115.

LIQUIDATIONS AND RECEIVERSHIPS

Every week every company that has gone into liquidation or receivership what they did and who the liquidator or receiver is.

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A 4 star standard hotel with full conference and banqueting facilities situated close to the M6 • 100 plus letting bedrooms • Trading successfully in mid-market sector producing £450,000 plus Net Operating Profit. Offers are invited in excess of £4 million, subject to contract for the Freehold property. London 0171 639 8171 (MDR/1207)

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The Joint Administrators Edward Klemko and David Stokes, offer for sale the business and assets of Best for Carpets Limited (formerly Paul Eyes Carpets Limited).

Principal features of the business include:

- Turnover £540m
- 30 retail stores
- highly motivated and experienced sales team
- locations between Birmingham and Newcastle

For further information please contact Stuart Macmillar, without delay, of Coopers & Lybrand, Albion Court, 5 Albion Place, Leeds LS1 6JR. Telephone: 0113 243 1343. Fax: 0113 243 4567.

Coopers & Lybrand is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

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The Joint Administrators Edward Klemko and David Stokes, offer for sale the business and assets of Best for Carpets Limited (formerly Paul Eyes Carpets Limited).

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Wm Rawlinson Limited trading as Liberty Pharmaceuticals (In Receivership), established in 1953, manufactures and sells generic pharmaceuticals in tablet form under a variety of product licenses.

- Located in 12,500 sq ft freehold premises (including offices)
- Fully equipped licensed manufacturing facility, including test laboratory
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For further details contact the Joint Administrative Receivers Les Ross or David Rowlands, Grant Thornton, 1st Floor, Royal Liver Building, Liverpool, L3 1PS. Tel: 0151 224 7205. Fax: 0151 227 1153.

Grant Thornton

The U.K. member firm of Grant Thornton International. Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

D MORTIMER'S TRANSPORT SERVICES LIMITED

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D MORTIMER'S PRINT SERVICES LIMITED

D MORTIMER'S COMMERCIAL VEHICLE SERVICES LIMITED

(All in Administration)

The Joint Administrators offer for sale either in part or as a whole the business and assets of the above companies.

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For further details please contact R. Robinson or G. Lee of Buchler Phillips Traynor, Blackfriars House, Parsonage, Manchester M3 2HN. Tel: 0161 839 0900 Fax: 0161 832 7436

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ASTIKA AKINITA

INCORPORATED COMPANY OF REAL ESTATE CONSTRUCTIONS TOURIST AND RELATED ENTERPRISES

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"ASTIKA AKINITA S.A." (43 Panepistimiou str., 105 64 Athens), under its capacity as special liquidator, by virtue of Judgements nos. 593/1994 and 229/1996 of the Larissa Court of Appeal, of the assets of the hotel unit under the title "SKIATHOS PRINCESS ELISABETH" (hereinafter referred to as the "Enterprise") which is owned by the incorporated company "SKIATHOS TOURISM HOTEL AND GENERAL ENTERPRISES P.V. DERVENIS S.A."

7. The liquidating company and the creditors representing 51% of total claims against the "Enterprise" (para. 1, article 46a, L. 1892/1990 as applicable) are not liable for any legal or real defects or the lack of any attributes of the objects and rights being sold, nor are they liable for any omissions or inaccuracies contained in their description in the offer memorandum or any correspondence.

8. Interested potential purchasers are obliged under their own supervision and by their own means, expenses and personnel, to investigate and acquire a personal perception of the objects being sold, and to mention in their offer that they are fully informed as to the legal and financial status of the assets under sale.

9. The liquidator and the creditors mentioned in para. 7 above are entitled, according to their own judgement, to reject offers containing terms and options or the phrases referred to in para 4 above, regardless of whether they are superior to other offers as regards the amount being offered.

INTERNATIONAL CAPITAL MARKETS

Gilts lifted by weak producer prices data

By Samer Iskandar in London and Lisa Branster in New York

European bond markets took a respite after Friday's hectic session, but continued to outperform US Treasuries, albeit in moderate volumes.

UK gilts were supported by weak producer price data, which revived the debate over further interest rate cuts. Liffe's September long gilt future settled at 105.6, up 5.

In the cash market, the 7½ per cent gilt due 2006 was up 2 at 107.4, its yield spread over bonds 5 basis points tighter at 149 points. The yield spread over US Treasuries tightened by 8 basis points to 90 points.

Output prices fell 0.2 per cent month-on-month in June, slowing the annual rate of increase to 2.6 per cent from 2.8 per cent in May. Although industrial production was stronger than expected, rising by 0.6 per cent month-on-month in May, the weakness of

manufacturing output, which was unchanged from April, confirmed the quasi-stagnation of the economy.

"If the recovery fails to take hold, rates will be cut again as inflation falls," said Mr Simon Briscoe, an economist at Nikko Europe.

GOVERNMENT BONDS

■ Spanish bonds also outperformed bonds. The September future on 10-year bonds closed at 100.89, up 0.49. The 10-year spread of bonds over bonds tightened by 8 basis points to 213 points.

Economists at Bank of America believe the "scope for Spanish outperformance... looks

GOVERNMENT BONDS

limited right now". However, they remain bullish on bonds and recommend establishing "new positions" if the yield gap over bonds widens again to around 235 basis points from last Thursday.

■ US Treasury prices were stable in quiet trading in the wake of Friday's sell-off that sent the benchmark 30-year bond nearly 3 points lower.

Market participants seemed increasingly confident that a rate cut was imminent. "There is room for monetary easing," said Mr Marcello Pericoli, an Italian economist at San Paolo Bank in London. "But we do not expect any rate cuts until around the end of August." Mr Pericoli predicts official interest rates will be between 150 and 200 basis points lower by year-end.

OAT was 0.14 lower at 104.80, its yield 4 basis points lower than that of the equivalent bond.

Liffe's September bond future closed at 95.13, down 0.04. In the cash market, bonds outperformed US Treasuries. At the European close, the yield of the 10-year T-Note stood at 59 basis points over that of the equivalent bond, 4 basis points wider than on Friday and up 21 basis points from last Thursday.

■ US Treasury prices were stable in quiet trading in the wake of Friday's sell-off that sent the benchmark 30-year bond nearly 3 points lower.

Some bargain hunting after Friday's decline had also helped to stabilise the market, he added.

Investors are focusing on Friday's release of figures on June producer prices and retail sales for signs of whether the strong economic growth seen so far this year will translate into inflationary pressures.

■ In early morning trading, the long bond was down more than a quarter-point as selling in Asia and Europe carried over into the US session. By mid-day, however, the long bond was just 4 lower at 95.6 to yield 7.186 per cent.

At the short end of the maturity spectrum, the two-year note was down 1 at 98.94, yielding 6.437 per cent. The September 30-year bond future was 4 lower at 105.6.

The market tumbled on Friday after a stronger than expected figure on June employment sparked fears that the Federal Reserve might raise interest rates even before the next meeting of its Open Market Committee in August.

Mr John Spinello, a government securities strategist at Merrill Lynch, said many investors proved unwilling to sell securities given the recent rise in yields.

Some bargain hunting after Friday's decline had also helped to stabilise the market, he added.

JP Morgan launches European dollar OIS

By Samer Iskandar

Short-term interest rate volatility is likely to increase in the run-up to European Monetary Union, reinforcing the need for a wider range of hedging instruments.

"Market volatility is gradually shifting from foreign

DERIVATIVE INSTRUMENTS

exchange rates to interest rates," says Mr William Porter, short-term interest rate product manager at JP Morgan.

The US investment bank yesterday launched the first European Overnight Indexed Swap (OIS) on US dollars. The underlying floating rate for this fixed/floating-rate hedging instrument is the Fed Funds effective rate.

The notes are being launched as a eurobond issue, to be distributed in Europe and Asia by Thai Cars, a specially created vehicle that brings together Tru-Way, which has a portfolio of hire-purchase contracts, and Tric Leasing, which has a portfolio of motor vehicle lease receivables.

Mr Porter insists that for OIS to succeed, "it is essential that the published index be as representative as possible of the rate at which actual transactions are carried out".

The Ecu offers a good example. The Bank for International Settlements participated in the creation of the index, which is compiled from rates on all component currencies through more than a dozen banks. Overnight transactions are then settled at the compiled rate, which ensures published and effective rates match.

Market participants say there is strong demand for OIS in sterling, but no product is on offer yet due to the absence of a benchmark.

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MARKETS REPORT

Markets await the Treasury report

By Gillian Tett

Currency markets were subdued yesterday as dealers' attention remained split between the market swings in the US at the end of last week - and the prospect of fresh UK policy developments today.

In the UK, the main focus of interest was today's summer economic forecast from the British Treasury. With the details of this not released until mid-morning, traders were reluctant to take strong positions ahead of the report.

However, for Continental European currencies, interest remained fixed on last week's comments from the Bundesbank about the likelihood of further German rate cuts.

Meanwhile, traders on both sides of the Atlantic continued to mull over the prospect of a US-interest rate rise, following last week's stronger-than-expected US jobs data.

In the UK, the markets had

some mixed data to digest after official figures showed that manufacturing output was flat year-on-year in May.

The muted picture provided further evidence of the weak state of export markets. But though this left some economists concerned about the state of demand, it also had favourable inflation implications: prices for factory goods fell for the second month running.

On balance, economists decided that this made an interest rate rise fractionally less likely: the sterling futures contract for December rose by 5 basis points during the course of the day's trading to 94.14. At this level traders expect UK base rates to be slightly below 5 per cent by the

end of the year - or a fraction higher than their current level.

The data was slightly supportive for sterling, helping it to maintain its level against a strengthening D-Mark and dollar. It closed at DM2.376, compared to a previous close of DM2.376. Against the dollar it closed at \$1.554, compared to \$1.555 at the end last week.

And traders insisted that the main trigger for any fresh interest rate assumptions or currency movements was likely to come today, with the release of the Treasury's summer economic forecast.

This is expected to show that the government now expects borrowing to be higher than previously forecast, while growth this year will be a little weaker.

Elsewhere, trading in Conti-

nental European currencies

was shaped by reaction to comments from Mr Hans Tietmeyer, Bundesbank president, at the end of last week.

In these he indicated that he did not see any grounds for cutting German interest rates in the current economic climate.

These comments pushed the D-Mark notably higher during the course of the day, as traders contemplated the possibility that the next move in German interest rates would be up, rather than down.

In the European crosses, the German D-Mark closed at FFr3.835 against the French franc compared with FFr3.820

the previous close of FFr3.803.

Meanwhile, against the peseta it ended the day at Ptas84.04, compared to a previous close of Ptas84.05.

Against the dollar, by contrast, the D-Mark ended at DM1.528, unchanged from the level it settled at during Friday's European trade.

However, profit taking pushed the dollar back during the course of yesterday afternoon. And market observers warned that the bullish tone to the US currency was unlikely to provoke a dramatic strengthening while uncertainty remained about when US rates would rise.

"There is quite a bit of trepidation in the market as to the precise timing of a U.S. interest rate hike," said Mr Stuart Thomson, chief economist at NatWest Europe.

This flat position largely reflected the fact that the dollar - like the D-Mark - enjoyed a wave of positive sentiment during the day, as dealers began to consider the next round of interest rate rises.

This swing had been triggered on Friday by better than expected jobless data. These figures, coupled with signs of strengthening wage demands, triggered fears that the econ-

omy may face a risk of overheating.

The dollar strengthened in late US trading on Friday, and this bullish tone was maintained during the opening hours of European trade.

It closed against the Italian lire at Lt1005, compared to the previous close of Lt1003.

Meanwhile, against the

WORLD INTEREST RATES

MONEY RATES										
July 8	Over night	One month	Three months	Six months	One year	Lomb. inter.	Dic. rate	Rep. rate	Banker's	Banker's
Belgium	3.5	3%	3%	3%	3%	7.00	2.50	-		
week ago	2.5	3%	3%	3%	3%	4%	2.50	-		
France	3.5	3%	3%	3%	3%	4%	3.50	-	5.60	
week ago	3%	3%	3%	3%	3%	4%	3.50	-	5.60	
Germany	3.5	3%	3%	3%	3%	4%	4.50	-	3.00	
week ago	3%	3%	3%	3%	3%	4%	4.50	-	3.00	
Ireland	5%	-	-	-	-	5%	-	-	6.25	
week ago	5%	-	-	-	-	5%	-	-	6.25	
Italy	5%	-	-	-	-	5%	-	-	9.00	9.30
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Japan	1%	-	-	-	-	1%	-	-	0.50	-
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'Just in time' oil buying continues

By Robert Corzine

US oil refiners appear to be maintaining the "just-in-time" stock management techniques that helped to unsettle world oil markets during the past northern hemisphere winter.

The latest monthly oil market report from the International Energy Agency said there was a surge in US oil imports in May, with crude oil stocks reaching their highest end-of-month level in six months.

But the Paris-based agency, which monitors oil markets on behalf of the main industrialised countries, noted that even with a buying surge US stock levels only matched the historically low levels reported at the end of 1995.

"There are no indications that the US industry will not continue the 'just in time' inventory policy that began last year," it concluded.

Traders attribute much of the oil price volatility last winter to the "just in time" policy. Although it has cut the high cost of storing crude oil, it caused sharp price spikes as refiners scrambled to secure extra crude in response to supply disruptions or sudden per-

iods of high demand, usually as a result of bad weather.

Oil stocks held in May by OECD members rose by an average of 1.2m barrels a day, to end the month 32m barrels lower than a year ago. That is equivalent to 3.3 days of consumption. But the IEA said total industry stocks of crude oil and petrol at the end of May were in line with previous years. It predicted that the average stock build in the June-December period would need to be just 150,000 b/d to return to year-earlier levels by the end of December.

The report said supply rose at an "unusually" fast rate in June to 72m b/d, compared with estimated global demand for the year of 71.7m b/d.

The agency has also maintained its relatively bullish outlook for production in countries outside the Organisation of Petroleum Exporting Countries. Although it has made some modifications to its last forecast, the IEA still expects "strong" output growth in non-Opec countries in the second half of 1996, with the North Sea accounting for more than 500,000 b/d of the projected 1.3m b/d increase over the first half of the year.

Simex aims to revive its fuel oil futures

The Singapore International Monetary Exchange (Simex) is drafting fresh proposals to revive its fuel oil contract following meetings with oil traders and major oil companies, industry officials said yesterday, reports Reuters from Singapore.

Simex representatives met major oil companies, oil traders and bunker dealers in late June, the officials said.

The exchange planned to change the grade of fuel oil listed on the exchange, they added. The new contract would cover 3.5 per cent sulphur fuel oil, in line with the bulk of fuel

traded on Singapore's cash market, instead of the previous 4 per cent.

In addition, Simex planned to adopt a narrower loading-range date of 11-30 each month for deliveries at nominated ports against the contract, compared with the previous 5-26, the officials said.

But Simex had yet to decide on a proposal for a procedure to determine the settlement price at expiry.

Once the draft for the new specifications is completed, it will be sent to the Monetary Authority of Singapore for final approval.

Traders

Cautious on Chinese rice situation

China might have to buy rice on the international market as a result of floods that have ravaged its southern provinces, some regional traders said yesterday, reports Reuters from Hongkong.

They warned that it was too early to tell how extensive any damage to the rice crop had been and pointed out that domestic spot prices were falling, suggesting that rice supplies were still perceived to be sufficient.

Any Chinese imports might drive up international prices, the traders said, but to what extent depended on the quantity that the Beijing authorities actually purchased.

The floods have hit the provinces of Hubei, Guizhou, Zhejiang, Anhui and Jiangxi, causing more than \$2bn of damage

and affecting an estimated 700,000 hectares of agricultural land.

"It is going to boost the price of rice, which is already high, but it's not possible to tell yet how much because we do not know the kind of volumes the Chinese will get," the Bangkok trader said.

One Singapore-based trader was still more cautious. "This may all just be hype," he said. "The market is more focused on the weather market in the United States. Those [Chinese] regions damaged are mostly rice-growing areas and it may take several weeks before we get a clear picture of the situation."

Another trader raised the possibility that some of the rice crop might be salvaged in some Chinese provinces if the floods receded quickly. "I haven't seen any impact in the market."

"These floods are south of the Yellow river. That's mostly rice. All of their summer crops like corn [maize] and wheat are doing O.K.," another trader said. "We just have to wait and see until the final report comes in."

China's rice area has risen by almost 1 per cent in 1996 to 8.27m hectares, according to an official survey. Its rice imports between January and April dropped 67 per cent to 250,000 tonnes, while exports jumped 337 per cent to 80,000.

Broker

Cuts 1996 base metals price forecasts

Billiton Metals has cut its 1996 price forecasts for all base metals except lead, reports Reuters.

In a mid-year round-up of the metals markets, Billiton has lowered its cash copper forecast to a 1996 average of 98 US cents a pound from 105 cents originally. The actual 1995 average was 133.3 cents.

"As this year wears on, and it becomes clear that a substantial surplus is building, we believe that further losses will be recorded," Billiton says in its round-up.

Aluminium prices are also expected to be lower than originally predicted. The market is

likely to be vulnerable to copper's movements during the seasonal fall in demand now starting, says Billiton, although it predicts a mild recovery during the final quarter. Cash aluminium prices are now put at an average of 70 cents a pound this year from the original figure of 75 cents and last year's 81.9 cents.

Nickel is forecast to average 360 cents, down from 400 estimated earlier and 374 in 1995, while zinc's forecast is cut to 48 cents from 50 cents and tin's to 280 cents from 300.

The lead forecast is raised to 36 cents from 34 cents originally and 38.6 cents in 1995.

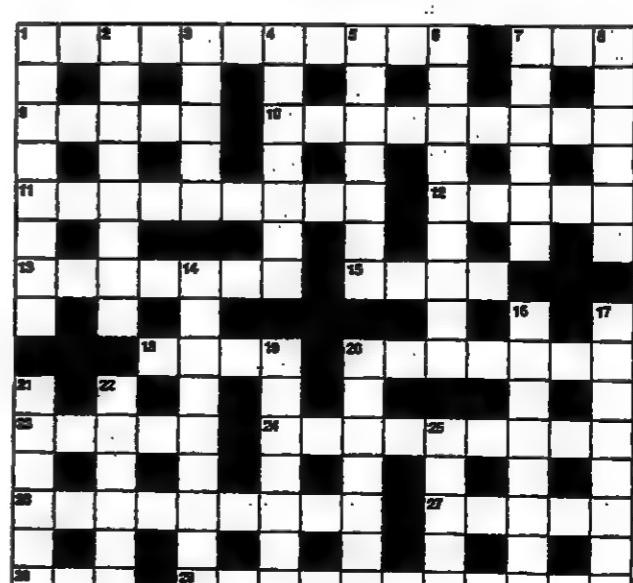
JOTTER PAD

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FINANCIAL TIMES SURVEY

Tuesday July 9 1996

GHANA

African trailblazer begins to falter

A lapsed recovery programme prompts concern about prospects for the continent as a whole, say Michaela Wrong and Michael Holman

Thirteen years after Ghana launched Africa's first economic recovery programme, the country long regarded by western donors as the continent's model reformer is in difficulties.

Notwithstanding aid flows averaging \$500m a year, Ghana's annual GDP growth rate is falling below the minimum 5.5 per cent target. For the second successive year, inflation is running at an annual rate of more than 50 per cent, and interest rates are negative, forcing the International Monetary Fund (IMF) to step in and tighten the screws.

More is at stake, however, than the welfare of a country that was in the vanguard of the struggle against colonial rule, winning independence from Britain in 1957.

Ghana's subsequent decline turned it into a symbol of Africa's malaise. But since 1983, when President Jerry Rawlings launched its reform programme, the country has become synonymous with hopes for Africa's recovery.

And when in 1992 military rule gave way to multi-party elections and a return to civilian government, it gave encouragement to a continent struggling to combine structural adjustment with democracy.

Thus if Ghana falters in its trailblazing role, not only will international confidence in the continent's capacity to recover be jolted, the credibility of the donors' development strategy for Africa will also be eroded.

For all the considerable achievements of President

Rawlings and his government – maintaining peace and stability in a troubled region, and reviving an economy devastated by mismanagement and coups – Ghana is failing short of its objective: sustained high growth, fuelled by high domestic savings and substantial foreign investment.

The presidential and parliamentary elections, only six months away, come at a crucial stage in Ghana's post-independence history, and Mr Rawlings is in a dilemma.

If he does not meet the tough conditions of the Fund's enhanced structural adjustment facility, which require severe cuts in state spending, he risks alienating the donors, and further undermining an already faltering recovery programme.

Yet to comply with the IMF terms risks an electoral backlash, certain to be exploited by opposition parties which believe they can unseat the man who has ruled Ghana for 15 years – provided, that is, they can form a united front.

But Mr Rawlings is not the only one in a dilemma. So, too, are the donors. They are caught between the need to put Ghana's reform programme back on track, and their fear that if they enforce the painful measures now necessary, they could threaten the re-election of the man most of them still believe is the best candidate for the job.

Just five years ago it could be argued that Ghana was poised for take-off. The Rawlings government had brought inflation down to 18 per cent, GDP growth in 1990 reached 5.3 per cent, and private investment had risen to a 10-year high of 5.1 per cent of GDP.

But an opportunity was squandered. Spending in the run up to the 1993 election, which marked the end of military rule, rose sharply.

It helped secure Mr Rawlings' election, but the country has yet to recover from the

damage done. Four years later, it remains to be seen whether the government has learned from the lesson or whether political expediency will triumph once again.

A bumper cocoa crop – the highest for a decade – and a booming gold sector, whose exports have supplanted cocoa as the country's main export earner, have boosted economic performance. But reasserting fiscal discipline still requires tough measures.

In a pledge addressed as much to anxious donors as to Ghanaians, Mr Rawlings has vowed not to repeat the mistakes of 1991-2.

This government has no intention of subordinating the nation's economic interests to political expedience," the president said earlier this year, a theme taken up by the country's finance minister, Kwame Pemrah, when presenting the 1996-7 budget in June. "Our proposals today aim to avoid the populist path, the path of least short-term resistance."

Under the terms agreed with the IMF, the annual rate of money supply growth is planned to fall from almost 40 per cent at the end of 1995 to 5 per cent by the final quarter of this year. Tight controls are imposed on the government budget, particularly in the road building sector, where overspending in the past has been one of the factors behind inflation.

Meeting these targets in any year would be difficult. In an election year, it may be unrealistic. The government's recent record, let alone its performance in 1991-2, does not inspire confidence.

Sceptics point to the disappointing performance in 1995, when budget targets, including a reduction of inflation to 15 per cent, proved little more than wishful thinking.

Last year represented one more year in a series of dashed hopes and frustrated expecta-



Ashanti Goldfields at Obuasi: the mineral is Ghana's biggest export

One area of potential political patronage is investment in roads, which in 1995 rose to 5.5 per cent of the capital budget, amounting to 6 per cent of GDP. The 1996 programme calls for a sharp reduction in capital outlays to 3.9 per cent of GDP from 6 per cent in 1995, with the road construction programme taking the biggest cuts.

Under the agreement with the IMF, arrears in payments to contractors are supposed to have been cleared or rescheduled. But local commercial bankers are noticing that some contractors are once again borrowing to fund projects, with the intention of submitting their bills to government after the election is out of the way.

Although the political motives seem clear – roads win votes – the issue also goes to the heart of one of the biggest problems faced by African countries implementing structural adjustment programmes.

Weak infrastructures hamper development and deter investors, foreign and domestic. It is hard to see how cuts in spending on roads is compatible with development.

Yet, in sectors where private investors could provide management expertise and capital, Ghana is moving slowly, and state-owned enterprises such as Ghana Airways and the telecommunications corporation have yet to be privatised.

Meanwhile, all is not well within the ranks of the NDC itself. Seventy-five MPs who were deselected at party primaries are flirting with the opposition or threatening to stand as independents unless they win "compensation".

The clumsy handling of a drugs scandal at the Ghanaian embassy in Geneva and allegations of corruption among top officials have also tainted the government's image.

But most damaging to Mr Rawlings's re-election prospects is the mounting discontent in urban areas at the failure to achieve prosperity, and the impact on living standards of rising prices.

The picture is more encouraging for the president in the rural areas, which have clearly benefited from the reforms – a greater proportion of the sales prices going to the cocoa farmers, and employment opportunities provided in the rapidly expanding mining sector and timber business.

Nonetheless, the NDC seems worried enough about its electoral prospects to be tempted to try to spend its way to victory.

IN THIS SURVEY

- Economy: back in intensive care
- Investment: hunt for foreign capital
- Banks: front-line fighters of inflation
- Industry: hard times for manufacturers
- Gold: predator may be staking Ashanti
- Privatisation: price of sell-offs quickens
- Stock exchange: sports begins to fade
- Cocoa: bumper crop of beans expected
- Tourism: a painful past recalled
- Politics: Rawlings faces tougher test
- Business guide

Exchange rates

Average for 1995: \$1=1,200.43 cedis

Average for 1996 (up to June 30): \$1=1,553.58 cedis

Production editor Roy Terry

provided by Unilever. Five years ago, between 60 per cent and 70 per cent of its sales were in urban areas; today that proportion has dropped to between 40 per cent and 50 per cent.

The combination of rural backing and divisions in the opposition may yet be enough to see the president and his party back in power, albeit with the prospect of a much-reduced parliamentary majority for the NDC.

But if it is achieved through breaking the spending targets agreed with the Fund, the price will be high. As one diplomat pointed out, in 1991-2 "it took a year for the increase in money supply to work its way through the system. This time the whole economy is on an inflation footing and if they did the same thing again, the cold could collapse."

If on the other hand, the government refuses to take the path of expediency, Ghana still faces a demanding period. As an IMF paper notes, despite the progress made during 1983 to 1991, "real per capita growth averaged 2 per cent a year" during this period. "At this rate, Ghana's average poor would not cross the poverty line for well over 30 years".

It may well be that this is all Ghanaians can hope for. But if this is the best that structural adjustment can offer Africa, the continent faces a long haul.



REPUBLIC OF GHANA

DIVESTITURE OF STATE-OWNED ENTERPRISES

The Government of Ghana, as part of its overall Economic Recovery Programme, is pursuing a programme of divestiture of state-owned enterprises. The Divestiture Implementation Committee ("DIC") was established by the Government to implement and execute all Government policies in respect of divestiture programmes.

The divestiture programme is intended to reduce the size of the public sector and to improve the performance of enterprises by mobilising private sector management and capital. The financial and managerial burden on Government will be reduced and the state will be able more efficiently to manage the business of Government. The proceeds from the sale of enterprises can be used to improve, among other things, infrastructure, health services and education.

MODE OF DIVESTITURE

Information and documentation is collected on each enterprise listed for divestiture. Once that has been done, a decision is made as to the preferred mode of divestiture. This will usually be the sale of the enterprise's assets by competitive tender. However, other options include the sale of shares (particularly where the enterprise already has some private sector investors), the creation of joint venture companies between the state and private sector investors and the leasing to private sector investors of an enterprise's assets.

ACCELERATION OF THE DIVESTITURE PROGRAMME

The Government, through DIC, is committed to an acceleration of the divestiture programme. This is being achieved principally by means of outsourcing some divestitures to the private sector. DIC closely monitors subcontracted work to ensure that it is carried out in accordance with DIC's procedures and statutory responsibilities.

DIC maintains a Register of pre-qualified firms to undertake work on divestitures. Except for

small assignments or in exceptional circumstances, DIC, in the case of each assignment, draws up a short list of suitable firms appearing on the register. The short-listed firms are invited to submit proposals in connection with the assignment concerned and the winning firm is selected on the basis of those proposals.

INVESTMENT ENVIRONMENT

Private investors in the divestiture programme are benefiting from the macro-economic and sectoral reforms introduced under the Government's Economic Recovery Programme – most notably the rehabilitation of economic and social infrastructure, the liberalisation of imports and foreign exchange, as well as easy remittance of dividends, profits and fees abroad. In addition, trade regimes devoid of public intervention and reforms that have reduced company taxes have helped to make the business climate more conducive to investment.

INVITATION TO PARTICIPATE

The Government is fully committed to the divestiture programme and, accordingly, invites all investors, both local and international, to participate in it.

DIC will provide full details of the divestiture procedure to be followed in any particular case.

ENQUIRIES

For more information on the divestiture programme, please contact:

Executive Secretary
Divestiture Implementation Committee
F35/5 Ring Road East, North Labone
P.O. Box C102, Cantonments
Accra, Ghana

Tel: (233-21) 772046
(233-21) 773119
(233-21) 760281

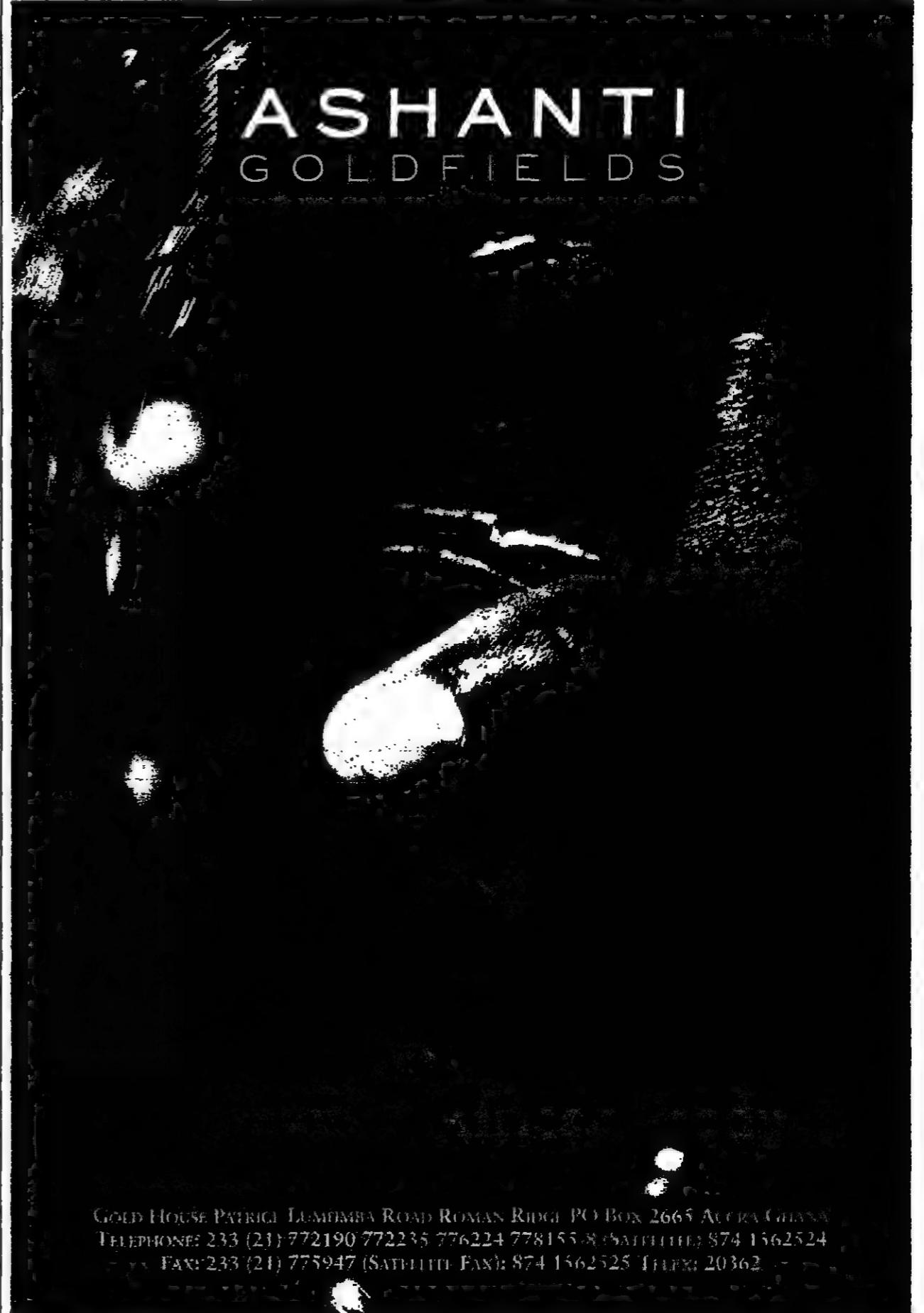
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2 GHANA

■ Economy: by Tony Hawkins

Back in the intensive care ward

Analysts are sceptical about the will to meet the tough targets set for next year

"If the government can keep its nerve and its hands in its pockets and not in the till, then it might just make it," says a Ghanaian businessman. This widely-held view underscores the reality that Ghana will only meet the tough targets set for the next year and regain some of its former prestige as Africa's structural adjustment success story if the government's political will and management capacity measure up to the task. There are mixed signals on both counts which are hardly surprising less than six months before the elections.

Last month, Accra managed to convince the International Monetary Fund of its seriousness about maintaining fiscal and monetary discipline in an election year. Given the track record in Africa - and elsewhere - where governments have repeatedly turned a blind eye to fiscal and monetary targets to buy votes, scepticism is justified.

Indeed, given the slippages that have bedevilled the economy since 1992, the Fund was no pushover, and the mid-term review of Ghana's Enhanced Structural Adjustment Facility (ESAF) loan, which should have been completed at the end of 1995, dragged on into the second quarter of this year with Accra being forced to seek waivers for missed performance targets.

However, the grounds for scepticism extend well beyond the matter of political will. The targets, rightly described by one observer as "ambitious," involve transforming last year's marginal budget deficit of 0.1 per cent of GDP into a surplus of 2.4 per cent (or 0.6 per cent excluding privatisation proceeds), to be achieved by a combination of spending cuts, especially on road construction, increased revenue from privatisation, corporate taxes (including a substantial back payment of company tax by one of the banks) and higher tax receipts from cocoa.

There will be salary savings, too, partly from the government's wage deal with the civil service unions for a 30 per cent pay rise - less than half the headline inflation rate in the first four months of the year - and also reflecting reduced payments for terminal benefits.

The counterpart of fiscal restraint is the plan to bring down the rate of money supply growth from almost 40 per cent at the end of 1995 to 5 per cent by the final quarter of this year. While this looks ambitious - money supply growth actually accelerated marginally in the first quarter of 1996 - the authorities insist that they are on track. Reserve money, the benchmark used to target the money supply, declined some 6 per cent in the first four months of the year, suggesting that the central bank is sticking to its guns.

GHANA - A WOOD FOR EVERY PURPOSE

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JOINERY & FITTINGS

FLOORING

FURNITURE

MARINE

WINDOWS & DOORS

VENEERS

Timbers of high strength and offered in big sizes help designers produce elegant efficient structures. Ghana offers tough timbers like Kaku, Potassium, Denya, Kokoti, Dahomey ... and more.

Ghana exports over seventy species of timber. All kinds of grain and colour. From light weight white Wawa to high strength olive-brown Odum, via a whole range of attractive redwoods - Sapele, Mahogany, Edinam, Niangon, Guarea - and including the warm browns of Walnut, Mansonia and plantation Teak.

Ghana has species for all kinds of flooring from industrial to domestic. Handsome, hardwearing, abrasion resistant. Danta, Mansonia, Bonsamdua, Apa, Kusia and many others.

The familiar mahogany colours of Makore, Utile, Kosipo and Sapele are complemented by the silvery white Avodire and the eye-catching Hyedua, one of Ghana's most attractive timbers. And there are lots more.

Protecting coasts and river banks is one of the most testing tasks for timber. Ghana has some of the best: Potassium, Kusia, Kaku and Denya. They are among the world's strongest timbers.

The call is for minimum dimensional movement, strength in small sections and high natural durability. Choose Emedu, Odum, Niangon or from a dozen others.

Overlays for interior decoration come from a range of Ghana's light coloured species, Kyenkyen, Otie, Asanfina, Ceiba and Ohaa, as well as from many redwoods.

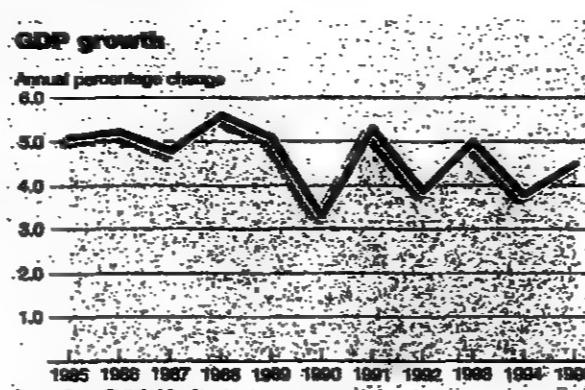
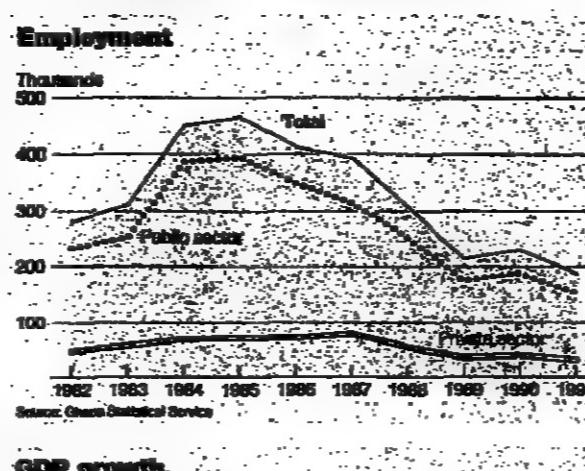
Descriptions of the properties and uses of Ghana timber species are given in the 57-page booklet 'Tropical Timbers of Ghana'. For more information about the publication and about supply channels contact TEDB at the addresses below.

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Telephone: +44 (0)171 495 1340 Fax: +44 (0)171 495 9923



Balance of payments (\$m)		
	1994	1995
Exports	1,227	1,451
of which		
Gold	549	647
Cocoa	320	390
Timber	165	180
Imports	1,580	1,887
Trade deficit	353	236
Net services	-384	-409
Private transfers	271	263
Official transfers	201	260
Current account	-265	-142
Net capital	428	426
Overall balance	184	115



Source: Ghana Statistical Service

The authorities are committed also to maintaining positive real interest rates as part of the plan to mobilise savings and restrain demand. Bankers, businessmen, diplomats and opposition politicians point out that money market interest rates - and even more so, bank deposit rates - are well below the headline inflation rate of around 16 per cent for the January-April period. They accuse the IMF of resorting to smoke-and-mirror tactics to demonstrate that the underlying (seasonally adjusted) inflation rate is, in fact, about half the headline rate, enabling it to claim that interest rates are already positive. But that claim carries little credibility when the Fund itself is forecasting annual headline inflation this year of 45 per cent.

Much of this sounds - and is - immensely technical. It is difficult to escape the conclusion that Ghana has managed to reduce poverty by cutting the proportion of the population living in poverty from 36.4 per cent in 1987/8 to 31.5 per cent in 1991/2, this is purely a rural phenomenon, reflecting the recovery of the cocoa industry, in particular. In urban areas, poverty deepened slightly and

since September 1994, implying that it costs \$15,000 to create a single job.

With savings levels averaging less than 10 per cent of GDP, it is obvious that private foreign investment is the key to sustained recovery. Under current conditions, Ghana cannot hope to attract sizeable foreign inflows except in the mining sector, and possibly, through privatisation, though here too the number of ventures likely to win foreign support is relatively small. Given the country's rundown infrastructure and narrow domestic market, multinationals seem unlikely to be attracted by manufacturing opportunities, especially since there are formidable transport and tariff obstacles to servicing the regional market from Ghana.

Infrastructural shortcomings will constrain efforts to develop export-driven manufacturing activities in Ghana's recently-launched free zones, especially since labour is not particularly cheap by Far East standards. The minimum wage is just over \$1 a day and while this is likely to fall with the continuing depreciation of the cedi, it is difficult to see Ghana becoming globally competitive in the medium term, other than in mining and agriculture.

Despite this, the external payments situation has improved mainly on the strength of strong gold and timber exports and the recovery in the cocoa sector. However, with export volumes having grown strongly in only two of the past six years, the balance of payments has been stabilised by weak import demand - import volumes fell almost 20 per cent in 1992/3 - and by sharply higher export prices which have risen more than 40 per cent since 1992.

With gold export growth likely to slow as production flattens out at Ashanti's Obuasi

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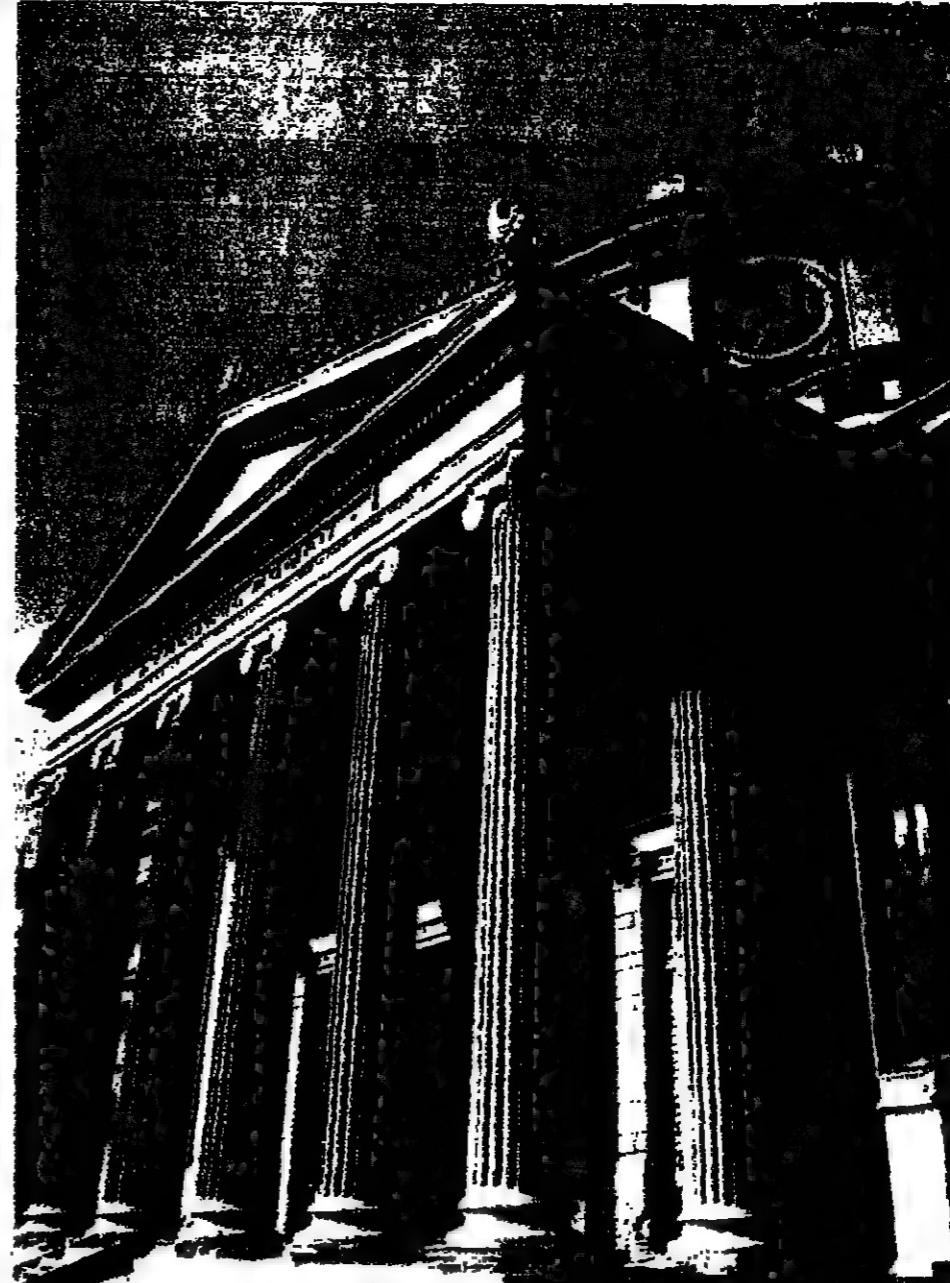
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ROMANIA



Constanta: modernisation under way will restore the port's central role in regional trade



Vader News

The Athenaeum, the city's turn-of-the-century concert hall

become a real democratic state supported by a healthy economy and a middle class capable of ensuring social stability," says Emil Constantinescu, who heads the centre-right Democratic Convention (CDR), the main opposition coalition. Mr Constantinescu is the CDR's candidate in the presidential elections - a race analysts expect the incumbent Ion Iliescu to win.

While short of funding, the CDR as well as Petre Roman's Democratic Party, the main component of the recently-formed Union of Social Democrats, the second opposition group, face the elections better organised than four years ago. The explosion of private local and national radio and TV stations, breaking the state's monopoly of the airwaves, has also helped the opposition.

However, it remains splintered. Dorel Samior, head of the local CPSCA think-tank, says that to win in the autumn, opposition politicians must make alliances and show they can work together effectively on Bucharest city council and in the other areas won in local elections.

The PSDR had hoped that, after the next elections, it would be able to ditch its hard-line left-wing and far-right allies, but its poor performance last month suggests it may have to rely on extremist parties, including an anti-Hungarian nationalist group, to stay in power. This means little progress is likely in agreeing a much-delayed basic treaty with Hungary before the autumn while the presence of nationalists in the government has also complicated similar treaties with Russia and neighbouring Ukraine.

The treaty has also been delayed over the unclear status of a small Black Sea island which might influence division of international waters between the two countries. Oil and gas prospects make this strategically important.

As well as aiding on-going exploration projects being undertaken with the help of western oil companies, Romania hopes to make the port of Constanta a gateway for energy and other raw materials from the central Asian republics. "This is a huge strategic advantage Romania can offer Europe," says Teodor Melescanu, foreign minister.

"In this year's elections Romanians can choose between two directions - a South American-type state led by a cynical, rich and corrupt oligarchy... or they can opt to

The political heat is on

With elections in view and support for the ruling partywaning, reforms are falling victim to populist measures, say Virginia Marsh and Kevin Done

This year the Romanian summer will feel hotter than usual. Although the autumn's elections are four months off, the campaign is under way, sound but unpopular economic policy decisions are being sacrificed to the needs for votes, and the country's splintered political forces are busy negotiating pacts and choosing their presidential candidates.

The poor performance of the ruling Party of Social Democracy (PSDR) in last month's local elections, the first nationwide polls for four years, has given centrist and centre-right opposition parties their greatest chance yet to win power at the national level and end the former communists' seven years in government.

This increases pressure on the PSDR's minority govern-

ment to take populist measures at the expense of market-led reforms. These have already included wage increases in the state sector, fixing the exchange rate of the leu at artificially high levels, delaying centrally-controlled energy prices and channelling huge subsidies to agriculture.

Such measures are taking their toll on the country's fast-growing but fragile economy. Florin Georgescu, finance minister, has been reluctant to abandon publicly an end-December inflation target of 20 per cent and insists that restructuring of the state sector is continuing apace.

Independent analysts, however, say inflation may rise to 30-40 per cent and that, in spite of the efforts of the motivated but small government restructuring agency, restructuring has slowed, reflected in the fall in unemployment to 8 per cent, containing large stocks of industrial goods and high inter-enterprise debt.

However, the looming presidential and parliamentary elections, due on November 3, are proving a powerful incentive to complete a mass privatisation programme, the government's

most ambitious undertaking. The scheme will transfer to the population stakes of up to 60 per cent in nearly 4,000 state companies, accounting for nearly a third of gross domestic product in 1994.

In parallel, an over-the-counter market is being set up, with US help, to deal with the huge trading volumes expected. Capital market development has also been helped by the National Bank of Romania's recent bond issues, its first on global markets in half a century.

Although the programme will privatise majority stakes in only a portion of the companies, it should break the state's grip on much of the economy and raise the share of the private sector, especially in industry.

At present, the private sector accounts for about 45 per cent of GDP but is concentrated in agriculture, services and trade, providing just 16 per cent of industrial output.

The programme is also being viewed with interest by foreign investors who have exhausted many of the best acquisition possibilities in central Europe. "The best of the searchlight is passing from countries like the

Czech Republic and Hungary to Romania," says Henry Russell, resident representative of the European Bank for Reconstruction and Development. "But Romania must get through its election year without."

Although the government frequently states its commitment to foreign investment, companies say it remains difficult to negotiate with the State Ownership Fund (SOF), the main privatisation body, and that large deals often go ahead only after the intervention of senior politicians.

This is a big problem in a country in desperate need of capital to raise low local living standards, improve its infrastructure and capitalise on its human and natural resources.

"Much of the private sector consists of mom and pop type enterprises with little capital or know-how, dependent on the energy of the individuals who run them," says a western banker in Bucharest. "At the same time, most foreign investors so far are primarily interested in consumer goods and the domestic market. But the authorities are pinning their hopes on export-led growth."

He says, "A main concern has to be the absence of long-term, large-scale investment in old and new export industries."

The difficulties at the SOF highlight one of the greatest shortcomings of Romania's fledgling democracy; the failure to develop sufficiently the institutions of a market economy and a modern state.

"People complain about the bureaucracy in Romania," says a former senior official, now working in the private sector. "Our problem is we have no proper bureaucracy. There are

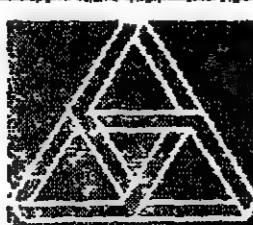
institutions don't work and corruption is huge." He believes this can be resolved only by a change of government. "I still consider the PSDR has the best people," he says. "But the ruling party needs to know what it is like to be in opposition."

It is hoped that, whatever the election results, the future executive will enjoy more political support than the present administration. Prime Minister Nicolae Vacaroiu only recently joined the PSDR and few members of his cabinet are senior party officials, contributing to

a power vacuum at the heart of government. This has slowed decision-making and encouraged a lack of transparency.

Together with its hesitant pursuit of market-led reforms, this has led opposition parties to accuse the PSDR of developing a Latin American-style system, bent on keeping Romania at the back of the queue for European integration.

"In this year's elections Romanians can choose between two directions - a South American-type state led by a cynical, rich and corrupt oligarchy... or they can opt to



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2 ROMANIA

■ Economy: by Kevin Done

A fragile condition persists

Despite a recovery, inflationary pressures continue and growth may start to slow.

Romania is in its fourth year of economic recovery from the deep recession that followed communism's collapse. Last year it outperformed most other central and eastern European countries with a growth in GDP of 6.9 per cent, but the economy is still dangerously distorted. It is clear that the pace set in 1995 cannot be sustained and growth is forecast at a more modest 4 to 4.5 per cent this year.

Overheating of the economy in the second half of 1995 has presented the authorities with tough inflationary consequences and the central bank has been forced to tighten monetary policy with actions which may prove unpalatable in an election year.

Publicly, government ministers repeat that the aim is to cut the inflation rate year-on-year from 27.8 per cent at the end of last year to 20 per cent by December; the target agreed with the IMF. But in private, officials accept that the target is already impossible to meet as inflationary pressures continue to build with consumer prices jumping by 5.3 per cent in May alone.

The experience of other transition countries has been that it is much more difficult to reduce inflation from 30 to 20 per cent and from 20 to 10 per cent than from 70 to 30 per cent," says Mugur Isarescu, governor of the National Bank of Romania.

The Romanian currency, the leu, is under pressure. Despite drastic measures taken to control the foreign exchange market, the central bank appears unable to bring the official and unofficial exchange rates in Bucharest into line. The persistence of an informal dual

exchange rate has been a point of contention between the Romanian authorities and the IMF, which is unhappy with the recent resort to restrictive regulations.

It is withholding the second \$70m tranche of the current stand-by loan until the interbank foreign exchange market is functioning properly.

A recent report by the Washington-based PlanEcon economic analysts said that "the restriction of foreign exchange licences has damaged Romania's image as a country moving towards reform".

While the official exchange rate has only recently moved just above 3,000 lei to the US dollar, the unofficial rate appears to have fallen to about 3,600 lei.

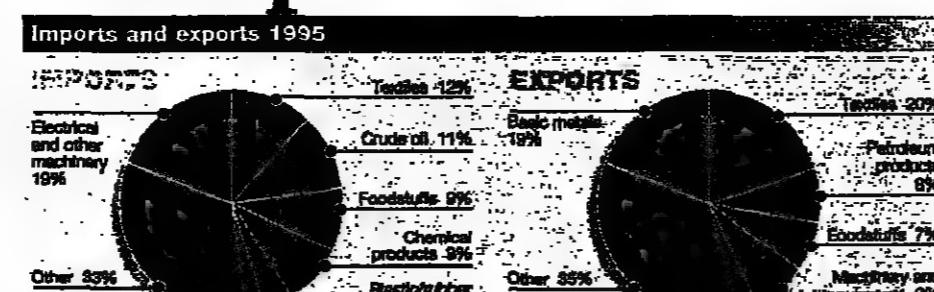
Between April 1995 and April 1996 the nominal exchange rate against the dollar fell from 1,879 lei to 2,913 lei. Further declines appear inevitable in with the money supply growing strongly and the central bank faced by government pressure to loosen monetary policy in an election year. High interest rates have had only limited success in slowing the inflationary tide.

The overheating economy forces the authorities into a hasty rearguard action late last year in the face of a rapid deterioration in the current account of the balance of payments, with the deficit jumping to \$1.22bn in 1995 from \$423m a year earlier.

While exports grew by 22.2 per cent last year to \$7.5bn, they were outpaced by a 33 per cent jump in imports to \$8.75bn, forcing the government to apply the brakes.

Interest rates were pushed up, the banks' foreign exchange reserve requirements were raised, government expenditure was reduced. Some import tariffs were raised and many tariff exemptions removed.

These measures resulted in a



Key economic data				
	1992	1993	1994	1995
GDP growth (%)	-10.0	1.3	3.4	6.9
Budget balance (%GDP)	-4.5	-0.4	-1.9	-3.6
Inflation (%)	199	206	62	27.8
Exports (\$bn)	4.4	4.9	8.1	7.5
Imports (\$bn)	5.6	8.0	6.6	6.5
Current account (%GDP)	-8.0	-4.5	-1.4	-3.6
External debt (\$bn)	3.2	2.2	5.5	6.5
Debt/export earnings (%)	65	38	77	74
Foreign reserves (excluding gold) (\$bn)	826	925	2,085	1,705

fall in imports of 17.3 per cent in the first five months of 1995, reducing the current account deficit. However, the country's exports are highly dependent on imports, not least semi-finished products and oil and gas (although this year's opening of the first reactor of a Canadian-designed nuclear plant in Cernavoda should cut energy import bills) and the squeeze on imports hit the country's foreign trade.

As the growth rate slowed, exports, too, fell by 11.9 per cent year-on-year in the first five months, although the continuing rise in industrial production suggests that some exports are not being recorded.

Romania has made much progress in reorienting its foreign trade towards the west, although, as in many other aspects of economic reform and restructuring, it lags behind fast-track transition countries in central Europe. At the same time, the sector is being buoyed by the entry of several international banks

last year exports to and imports from the European Union both accounted for more than 50 per cent of the total, whereas in 1990 the EU's shares were 32 per cent and 20 per cent respectively.

Imports from Russia – on which Romania still depends for energy supplies – rose by 20 per cent last year. Exports are dominated by textiles and garments, which rose by 26 per cent last year to \$1.65bn, metal and metallurgical products, which grew by 31 per cent to \$1.25bn, and by chemicals, and wood and furniture.

Restructuring of state industries is under way but at a slow pace and many remain loss-making, highly inefficient and burdened by heavy arrears. A recent study by IBCA, the European credit rating agency, said: "The degree of political consensus behind reform is not yet sufficiently robust to overcome the bureaucratic and other obstacles that can be put in its way."

and the resources they bring with them, as well as by the country's successful re-entry on to international capital markets and prospects of a lively over-the-counter market later this year once privatisation vouchers are exchanged for shares in nearly 4,000 state companies.

For the time being, however, the sector is not sufficiently developed or robust to support Romania's fast-growing but cash-strapped economy. "The continuing high cost of borrowing and the weakness of local capital markets affect the competitiveness of Romanian industry more than anything else," says Ion Florescu, chief executive of Capital, a local investment bank part-owned by Wasserstein Perella of the US and one of three local banks in which the European Bank for Reconstruction and Development has an equity stake.

"There is a great need for more imaginative financial solutions and products," says a western banker. "By now, for example, the state banks should all be going in for debt for equity swaps to help tackle the problem of bad debts."

For example, analysts say the biggest crisis to hit the sector to date – the insolvency of Dacia Felix, once a leading private bank – could have been avoided had action been taken earlier.

While irregularities at Dacia Felix first surfaced in the bank's 1994 balance sheet, it was not put under central bank supervision until last November and its management was only replaced this March. Meanwhile, the central bank has had to pump into the bank 1,000m lei (\$330m) – a huge amount in a country where the average wage is less than \$100 a month. The bank's main problems stem from bad loans made to companies linked to one of its largest shareholders, Sever Muresan, a former Romanian tennis player.

Mugur Isarescu, central bank governor, admits the bank was slow to tighten supervision but says the legal framework and the need to protect small investors gave the authorities little room for manoeuvre. He says a deposit insurance scheme to protect savings will be created over the summer and that the authorities will introduce regulations enabling banks to be declared bankrupt. "Strengthening banking supervision is our most important policy goal at present," he says.

Similarly, the securities commission is tightening regulation of mutual funds, after a

■ Privatisations: by Virginia Marsh

A surprising success

The programme has attracted a far higher level of public participation than was predicted

"Every week we talk to one or two significant potential investors but the number of deals that comes to fruition is negligible... There has to be a willingness to sell at a more realistic price."

Given the difficulties of negotiating with the SOF, the scheme will give investors their greatest chance to date to acquire local companies.

"This is a unique opportunity," says Valeriu Velicu, president of Unicapital, a local securities company. "We estimate that up to a third of Romanians will want to sell their shares immediately which means that prices will be low. This is the time for foreign financial investors to come in."

Like other brokers, however, he is concerned lest the delay in setting up the OTC leads to parallel, unregulated trading which might further damage the reputation of local capital markets.

The sector has taken something of a battering in recent months, following problems at mutual funds and the disappointing performance of the Bucharest Stock Exchange which re-opened last November for the first time since the second world war.

After getting off to a reasonable start, both turnover and prices of the 13 stocks listed on the exchange have subsequently plunged.

However, the SOF recently agreed to hold at least 10 initial public offers over the coming months – with technical assistance from the UK's Know How Fund – in a bid to boost the exchange's liquidity, as well as the credibility of capital markets in general, before Nasdaq opens.

After initial friction between the proponents of the two markets, it is intended that companies will graduate, in time, from Nasdaq to the ESE which hopes eventually to list the country's leading public companies.

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■ Banking and finance: by Virginia Marsh

Big four still rule the roost

Still dominated by state institutions, the sector cannot yet fully support a changing economy

Romania's nascent financial sector has reached a critical stage. Confidence has been eroded by trouble at several banks and mutual funds, the inter-bank foreign exchange market has all but ceased to function while confidence in capital markets has been hit by sagging prices and low turnover on the recently re-opened Bucharest Stock Exchange.

At the same time, the sector is being buoyed by the entry of several international banks

liquidity crisis and suspected insider trading at FMOA, once the country's leading investment fund. Like Dacia Felix, the fund was created in a legislative vacuum – it was set up two years before the securities commission even existed.

Although confidence has plummeted, analysts welcome the authorities' apparent determination to get tough. "It's good that these problems emerged now. Later on they could have been more dangerous," says Valeriu Velicu, president of Unicapital, a local securities company and member of the Bucharest Stock Exchange.

Despite the emergence of private, mutual funds and securities companies, the financial sector remains dominated by four large state commercial banks. The big four – Bancorex, the foreign trade bank, Banca Agricola, Romanian Commercial Bank and Romanian Development Bank – controlled 67 per cent of total assets of 37,000bn lei in the banking sector in May, according to central bank figures.

"There is a great need for more imaginative financial solutions and products," says a western banker. "By now, for example, the state banks should all be going in for debt for equity swaps to help tackle the problem of bad debts."

The government's continuing influence over state banks, as well as inadequate regulation and legislative gaps are among the factors behind the sector's present problems.

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■ Politics: by Virginia Marsh

The pendulum starts to swing

If local elections are a barometer, a change of government could be on the way

If the results of last month's local elections are anything to go by, Romania could at last be heading for a change of government in this autumn's general elections. The elections for mayors and local councillors - the first nation-wide polls for four years - were a victory for the opposition parties.

The governing Party of Social Democracy (PDSR), the rump of the group of former communists that has held power since December 1989, lost virtually every large city or town, including Bucharest, despite spending heavily on its campaign. It performed best in the countryside - its traditional stronghold and where nearly half Romania's population lives - but even in rural areas it lost votes to the left and the right.

The PDSR formed a minority government in November 1992 - supported in parliament by extreme nationalists and hardline left-wing parties - after narrowly winning general elections two months earlier. It took office during the depths of the country's post-communist recession and its government

was not expected to last. Few of the party's leading figures joined the cabinet. Instead it nominated "technocrats" such as Prime Minister Nicolae Vacarola, a former communist-era state planning official, to key positions.

"After seven years of the same government one would expect the pendulum to swing in the other direction," says a senior western diplomat. "But this is also a faceless government that doesn't represent a clear ideology. It does not capture the spirit of the country or the way it is going. It's not a government that people can identify with. It lacks political leadership."

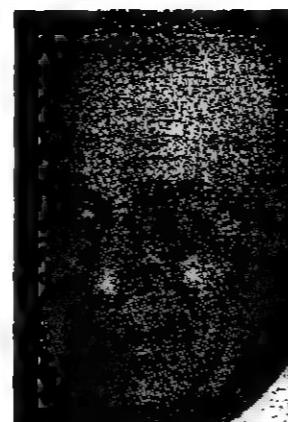
The PDSR describes itself as a centre-left party, aiming to create a "social market economy." Despite increases in real wages and a drop in official unemployment, however, the election results show the party is paying the price for governing during a period of plunging living standards and for failing to stimulate sufficiently the creation of jobs or improve the social security system.

Voters have also been dismayed by widespread corruption and the emergence of a small rich business class, several of whom appear to owe much of their success to links with the ruling party.

"Our best asset is that people are very disappointed with this



Emil Constantinescu, leader and presidential candidate of the PSD



President Ion Iliescu, Romania's first post-communist prime minister



Petre Roman, the presidential candidate of the USD

government," says Petre Roman, Romania's first post-communist prime minister and now the presidential candidate of the Union of Social Democrats (USD), a recently formed centrist coalition between his Democratic Party and a small Social Democratic party. "Corruption is huge. The system is really rotten." He says "Social promotion is based on party membership and many people live in incredible poverty."

In addition, opposition parties have used the past four years to build up their organisations and are better prepared to face the elections than they were in 1992. "We have gone

from a symbol of hope in 1992 to an institution of hope today. We have built up a national presence," says Emil Constantinescu, leader and presidential candidate of the Democratic Convention, a centre-right coalition and the main opposition group. "We still lack financial resources and access to mass media. But we can defeat [the PDSR] this year through better organisation and management."

The biggest obstacles to a change of government, however, remain division in the opposition and the distrust that exists between Mr Roman's technocrats - several of whom were part of the PDSR's predecessor party and government - and the Democratic Convention which includes many former dissidents and intellectuals.

The election results indicate that neither group would have the support to form a government alone. In addition, the results suggested the two liberal parties, formerly members of the Convention, would struggle to reach the 3 per cent threshold needed to enter parliament.

"In a campaign period, all parties are adversaries," says Mr Constantinescu. "However, we are disposed to make alliances, first with former Convention parties and then with the USD... The USD is closer to us than the [PDSR]. It has

an accent on rapid reform and on democratisation.

"The common experience of opposition has brought us together. But two main elements of the campaign are the poor government of the past six years and corruption. Members of this party [Mr Roman's] were in power for two of the six years... we don't want to take over that debt."

Analysts add that Mr Constantinescu places too much importance on the presidential poll, which also take place in November, when it is clear the opposition has a greater chance of winning the parliamentary elections.

One of the governing party's main advantages is that President Ion Iliescu, Romania's pre-eminent politician, is likely to stand on its ticket and appears to have a good chance of being re-elected. Unlike Mr Iliescu, Mr Roman and Mr Constantinescu have announced their candidacy for the presidential elections. Mr Roman's charisma and his strong presidential campaign were behind the USD's better than expected results in local elections.

Although Mr Iliescu is careful to distance himself from some aspects of the PDSR government, including its co-operation with extremist parties, the party's prospects are likely to improve significantly once the president's campaign gets under way.

Legislative elections 1992: parliamentary parties		
	Chamber of deputies	Senate
Party of Social Democracy in Romania (PDSR)*	117	45
Democratic Party (PD)*	43	15
National Peasant-Christian Democratic Party (PNCDP)†	42	21
Party of Romanian National Unity (PUR)*	50	14
Hungarian Democratic Union in Romania (UDMR)*	27	12
Greater Romania Party (RM)	16	5
Civic Alliance Party (PAC)*	13	7
National Liberal Party-Democratic Convention (PNL-DCP)	11	1
National Liberal Party-Youth Wing (PNL-AYT)	10	2
Romanian Social Democratic Party (PSDR)*	18	5
Socialist Labour Party (PSM)	17	4
Others	381	143
Total	981	381

*Formerly the Democratic National Salvation Front, renamed out of a split within the National Salvation Front in March 1992.
†Formerly the National Peasant Socialist Front, renamed in 1989.
‡The PD in 1992 formed a coalition, the Union of Social Democrats (USD), with the PDSR. It
§The main component of the Democratic Convention (DCP), a coalition of centrist political parties and their groups.
**The PUR's junior coalition partner.
††The PDSR's junior coalition partner.
‡‡The RM's junior coalition partner.
§§The PNL-DCP's junior coalition partner.
¶¶The PNL-AYT's junior coalition partner.
**The PDSR, a liberal party, contested the 1992 elections as part of the CDP but also left last year.
¶¶Now known as Liberal party 1992 (PLS). It contested the 1992 elections as part of the CDP but also left last year.
**Also known as a member of the CDP, the PSDR is now part of the USD with the Democratic Party (D).

Source: EU

■ Foreign borrowing: by Kevin Done

A return to the euro fold

A eurobond debut has come as global investors turn to emerging market borrowers

Romania's return to the international capital markets during the past year after an absence of more than a decade marks a crucial development in the integration of the country into the world economy.

The borrowing programme allows the hard-pressed central bank to rebuild its foreign exchange reserves and to reduce its dependence on borrowing from the international financial institutions led by the IMF and the World Bank.

Romania was absent from the capital markets for more than a decade, after the deeply damaging decision of its late dictator Nicolae Ceausescu to repay the country's entire \$20bn foreign debt in the 1980s.

Its debut on the eurobond market last month has coincided with growing popularity of emerging market debt among international investors, anxious to pick up the extra yield available on paper from developing nation issues.

The launch of its \$225m three-year eurobond, up from the proposed \$150m because of the level of demand, has provided a further milestone in the foreign borrowing programme. It was the sixth capital raising exercise since Romania re-entered the market early last year.

The National Bank of Romania raised \$150m in a one-year syndicated loan arranged by Citibank in March, 1995 and a further \$10m in a 12-month deal on the syndicated market last October, also arranged by Citibank. It followed those deals with a \$90m syndicated loan led by Sama in April.

In between, the central bank raised \$60m through a private placement of five-year floating rate notes in the US, led by Merrill Lynch, which also led the \$225m eurobond. And in May the bank raised \$52m with a three-year samurai bond led by Nomura, Romania's first international bond offering since the end of the second world war.

Rates on all these borrowings have steadily fallen. The bank paid 2.75 per cent over Libor on the first loan. That fell to 2.25 per cent on the October loan and the February private placement, and to 1.75

per cent on the April loan. Rates also improved between the launch of the two bonds this year with a rate of 3.85 per cent over US Treasury bonds achieved for the eurobond.

Mugur Israescu, governor of the central bank, says that Romania will be seeking to raise about \$500m in additional funds during the remainder of the year, probably in the shape of a fourth syndicated loan, together possibly with a second samurai bond.

"Each time we want to set new benchmarks," he says. "We want longer maturities and we want to improve our costs." The bank aims to build reserves and obtain a better credit rating, he says, but also to break the ice for Romania in the international capital markets, so the bank can be followed by the treasury, or public utilities and commercial banks and companies.

Mr Israescu also sees the borrowing programme as a way of improving prospects for increased foreign direct investment and portfolio investment, where Romania has lagged behind its regional rivals and which the governor regards as a catalyst for much-needed restructuring of industry.

Of the borrowing limit set by parliament of \$1.5bn for this year, the bank has raised about \$600m. Debt service payments total about \$1.1bn for the year of which around half was paid in the first six months.

Romania's return to the markets has been supported by its first ratings earlier this year from all leading credit rating agencies. Standard & Poor's, IBCA and Moody's each awarded their third highest speculative or non-investment grade rating (BB- for S&P and IBCA and the equivalent of Ba3 for Moody's).

The awards are the lowest for any of the central European countries rated by the agencies, well below the A category for Slovenia and the Czech Republic, the highest rated of the transition countries, and also well behind Slovakia, Poland and Hungary, which all have investment grades from some of the agencies.

Analysts regard the ratings as favourable, however, given that economic reform started later in Romania than elsewhere in the former communist bloc and that they reflect the country's low foreign debt and achievements in stabilising the economy during the past three years.

■ The port of Constanta: by Virginia Marsh

Rebirth of a hub

Modernisation currently under way will restore the port's central role in regional trade

The port of Constanta, the largest on the Black Sea, is emerging rapidly from a sharp post-communist recession - exacerbated by the UN embargo on rump Yugoslavia and Iraq, traditionally two important Romanian trading partners - and has embarked on a large modernisation programme.

Together with other projects, this should enable Romania to capitalise on its strategic location between east and west and to position itself on what is set to become an important trade route, linking the resource-rich Central Asian republics with Europe.

The modern port celebrates its centenary this year but for centuries Constanta has been a leading regional trading and maritime centre. It was founded in the 7th century BC by the Greeks who named it Tomis and later passed to the Romans, one of whose emperors, Augustus, exiled the port Ovid to the city where he died in misery in AD 17. Although Constanta, like other Romanian towns, has been blighted by the insensitive urban planning of the communist era, it remains rich in history and culture, exemplified by its mosques and ethnic Turk, Armenian and other minorities.

Today's port covers 3,600ha, divided into two areas - the older north port and a much larger, adjacent development, Constanta South, which has yet to be completed.

The south port is at the mouth of the 65km Danube-Black Sea canal through which traffic passes on to the river, at the start of a waterway linked to Rotterdam by the Rhine-Main-Danube canal which was opened in 1992.

Other plans include attract-

ing private investment for a liquefied natural gas terminal as well as further development of the Agigea free trade zone in the south port where foreign and local companies are already building warehouses.

The port is managed and owned by the state but services and other activities have been or are due to be privatised. This includes the Constanta shipyard, the country's largest, which employs 4,300 on a 70ha site in the heart of the north port. Since 1990, the shipyard has successfully re-oriented sales, away from the now negligible domestic market, to exports, winning orders from South African, Belgian, German and Austrian companies.

Production ranges from river-going barges up to bulk carriers of 170,000 dwt and the yard has also developed its repair activities. It is investing in new machinery and is one of 550 companies in the privatisation programme, in which 51 per cent has been set aside for a strategic investor. Sorin Putinei, production manager, says employees, who already own 7.5 per cent of the company, hope to form a consortium with local investors to buy a majority stake.

Although the shipyard is profitable - last year it made £5.8m lei - it is likely to face increased competition from 2 Mai shipyard, 40km south at the satellite port of Mangalia. Last month, Daewoo, the South Korean industrial group, signed an agreement to invest \$33m in a joint venture with 2 Mai. Daewoo's investment, which includes \$23m in "know-how" as well as its thick order book, will help the yard lift production to six to eight ships a year, up from less than one at present.

"The Korsans' productivity is incredible," says Vasile Iorga, marketing manager. "In a few years' time this shipyard will be the best in Romania and one of the strongest in the region."



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4 ROMANIA

■ Profile: Ion Tiriac by Kevin Done

Playing a winning game

Ilie Nastase's former doubles partner is bringing his many skills to bear on Romania

While Ilie Nastase, Romania's most famous tennis player, was taking a severe beating in his abortive effort last month to become mayor of Bucharest, Ion Tiriac, his former doubles partner, has been leaving a much more permanent mark on his country.

Since the collapse of communism Mr Tiriac has been bringing his considerable business talents to bear on Romania, the country that he left with Mr Nastase to three Davis Cup finals, but which he largely abandoned for 25 years during the worst excesses of the regime of the former dictator Nicolae Ceausescu.

Until the beginning of 1990 Mr Tiriac, once a top-class ice hockey player as well as international tennis player, had devoted his energies to building an international sports business career, first as coach and later as business manager and tournament promoter. His clients included Guillermo Vilas, Henri Leconte and most famously Boris Becker.

From his main base in Monte Carlo he is still deeply involved in the business side of international sport, bringing expertise to a number of leading tennis tournaments on the ATP and WTA tours including from this year the ATP world championship in Hanover, and he has a joint venture with Rupert Murdoch's News Corporation for marketing the world swimming championship.

In Romania, however, Mr Tiriac has been seeking quite different opportunities in the fledgling capitalist market of the second most populous country in central and east Europe, excluding the former Soviet Union.

His interests now span banking and insurance, car import and distribution, airport services, commercial television, automotive components, lubricants distribution, real estate, advertising and media services.

He holds a 31 per cent stake in an option to buy up to 51 per cent in Commercial Bank Tiriac, one of the most successful privately-owned banks to have started up in Romania and in which the European Bank for Reconstruction and Development holds a 20 per cent stake. The bank has 18 branches around the country.

He holds a 31 per cent stake

and plans for offices in New York and Frankfurt.

In addition, an insurance company, ASTI, Asigurari Ion Tiriac, still in its first year of operations, has 15 branches and 35 agencies around the country.

At Bucharest's main Otopeni airport Mr Tiriac holds a 25 per cent stake in Lutax, the airport services company responsible for both passenger and baggage handling. It is a joint venture in which Lufthansa also holds 25 per cent, Tarom, the Romanian state airline 37 per cent and the airport 12 per cent.

He moved early into the automotive sector and today holds 90 per cent stakes in the exclusive import/distributorships for Mercedes-Benz (Autrom), Ford (Romcar) and Hyundai as well as in the Avtomobil (Avtrom).

Mr Tiriac owns a one third stake in Rolen, a wood processing company near Brasov, which makes all the wood paneling trim for the Mercedes-Benz E and C class cars.

He has a high profile investment in Pro TV, the first national, private commercial television network, which is controlled by Central European Media Enterprises of the US. Pro TV began broadcasting

in December last year and is already outperforming the rival state-run channels.

Mr Tiriac claims that his

investment in Romania is now in excess of \$50m and that about 4,000 people are working in the companies where he is a leading shareholder.

He is in Romania two or three times a month but only for short visits. "I fly 320 days a year, my business is where I am at any moment."

While some of the emerging high-flying entrepreneurs in Romania are clearly intent on building business empires, Mr Tiriac is different. "He is really a venture capitalist with a series of investments," says one former business associate.

"He is an investor, he is not trying to run the businesses, He does not need the problems, the obligations, the hassles."

But Mr Tiriac has still built a formidable operation, much of which is financed and controlled from a series of holding companies in the Netherlands bearing names such as Red Room, Power Development and Baladeva.

"He is one of the sharpest

businessmen and tough as nails," says one banker in Bucharest. "What he does not know, he admits, and he hires the best people."

In November, it became the

only non-state company to list on the fledgling Bucharest Stock Exchange. Its majority shareholder is Arasurum, a Romanian trading company.

"Apart from the foreign loan, our principle is to raise financing from capital markets to avoid paying high local interest rates," says Mircea Roman, general manager of the company.

In January, when its stock was still high, Samevit completed a scrip issue, only to see its share price plummet as confidence in the exchange faltered and after the company decided to restructure its foreign debt.

It closed up 100 lei to 15,000 on June 27, a fraction of its all-time high of 73,000 last year. However, subject to market conditions, it plans to launch its first bond issue, possibly for 150m lei (60m) in the autumn.

Although private, the

company was formed partly at the initiative of the Ministry of Health, which identified a need for a local disposable syringe producer and was prepared to give a government guarantee for the equipment loan.

Romania has a serious AIDS problem, caused in part by poor hygiene and the re-use of syringes in the past.

Construction of the plant

began in 1992 and production started in December 1994 with the first deliveries in March 1995. The company, which eventually hopes to produce about 180m syringes and 800m needles a year, has reported 444m lei net profit for turnover of 1,522m lei for 1995.

We're in a business where the market is not going to disappear'

Although the 1995 profit

was above forecast, Mr Roman says that the company has not been able to work at capacity because of a shortage of local orders.

The Romanian market is estimated at about 300m syringes and 400m needles a year. However, Mr Roman says that when his team drew

up the first business plan the company was not aware that a large part of the market was covered by imported syringes that were financed by the World Bank.

This caused the company to turn towards exports which have included sales to France and Hungary - which is just 50km from Samevit's plant in the border town of Arad. Mr Roman adds that exports with hard currency - something which is often in short supply in Romania - enabling it to pay for medical wrapping paper and the other imports it needs.

However, the World Bank programme is now drawing to a close and, in May, Samevit won a substantial 10m lei order from the ministry of health for 82m syringes and 2.5m needles.

Virginia Marsh



■ The brewing industry by Kevin Done

Foreigners stake out positions

Global producers are eyeing up what they see as a market with bright prospects for sales

Foreign direct investment in Romania has lagged behind many other countries in the region, but with the second largest population in central Europe after Poland it is attracting the attention of many of the big international consumer products groups.

Setting the pace are several of the world's leading beer producers, which are staking out positions in a market that is ripe for restructuring and development and where the prospects for strong sales

growth are bright.

Groups such as Interbrew of Belgium, Germany's Brau und Brunnen and South African Breweries have taken majority stakes in existing breweries, while a new wave of investment has been triggered by Denmark's Carlsberg and Ebs, Turkey's top brewer, which have chosen to develop new breweries on greenfield sites.

Before the arrival of the big international groups the Romanian brewing industry was highly fragmented with about 40 small, regional producers, hampered from developing national brands by poor product quality and distribution.

That picture is changing rapidly, however, as the international brewers engage in a growing competition to establish a dominant position in the Romanian market. These moves are part of wider strategies for expanding throughout central Europe with the leading companies also investing heavily in neighbouring Poland, Hungary, Bulgaria, the Czech Republic and Croatia.

Interbrew, the Belgian producer of Stale Artois, is one of the international pioneers in Romania. With interests in Hungary, Croatia and more recently Bulgaria, it made its first step into Romania in mid-

1994 through the purchase of a 51 per cent stake in the Blanca Brau project in Blaj.

Now renamed as Blanca Interbrew Berganher, it began production in April last year of a beer developed for the Romanian market under the new brandname of Berganher.

Interbrew quickly followed

this investment with the purchase of a controlling 51 per cent stake in the small Proarc brewery in Blaj.

Proarc is expanding rapidly, however, as the international brewers engage in a growing competition to establish a dominant position in the Romanian market. These moves are part of wider strategies for expanding throughout central Europe with the leading companies also investing heavily in neighbouring Poland, Hungary, Bulgaria, the Czech Republic and Croatia.

"The big problem was the variable product quality," says Gérard Fanchay, Interbrew external affairs director. "The maximum shelf life was only about seven days, because they did not pasteurise the product. The small local brewers could

not distribute nationally because of the short shelf life."

The Romanian beer market is estimated at between 6m and 10m hectolitres a year, with a per capita consumption of 45 litres a year compared with 140 in Germany, 38 in France and 108 in the UK.

Competition is growing rapidly.

Brau and Brunnen, the leading German brewery group

and another early entrant is

the largest foreign brewer in Romania. Last year it acquired

from the state an initial 51 per

cent stake in the Pitesti brewery in Pitesti, about 110km west of Bucharest. The stake

has since been raised to 75 per

cent. Brau and Brunnen claims

a market share of 8.7 per cent

and says it wants to raise this to 10 per cent. Its first significant move was the purchase of a 51 per cent stake in the Ursus brewery in Cluj-Napoca, in north-west Romania in 1992. It now has a shareholding of more than 60 per cent in this brewery, where it is developing Ursus as its national brand in Romania.

The Pitesti brewery is being

modernised with plant and equipment from the group's shut down Ebbechloen production site in Hamburg, Germany. This is being transported to Romania for reassembly in Pitesti.

The most recent arrival in Romania is South African Breweries, which purchased earlier this year from the State Ownership Fund a 70 per cent

stake in the Vulnurul brewery

in Buzau, north-east of Bucharest with a 500,000 hectolitres capacity and a malt capacity of 11,000 tonnes.

SAB is investing about \$16m, including \$10m for the modernisation of the brewing facilities, packaging, distribution and marketing in the next five years. It has agreed to maintain the current workforce level for two years.

Other foreign brewers such as Carlsberg of Denmark and Ebs are to build plants rather than make acquisitions.

The most ambitious project is being planned by Ebs, the leading Turkish brewer and a subsidiary of the Anadolu group. It has leased land at Ploiesti, an industrial city north of Bucharest, for the development of a plant designed to be its export centre for central and eastern Europe.

The group has announced plans to spend up to \$140m during the next six years to create a capacity to produce up to 3m hectolitres a year, making it one of the biggest breweries in the region. Production is due to begin next year.

Carlsberg is taking a 20 per cent stake in a new venture Romanian Breweries Beresprod, along with Israeli and local Romanian partners. It is building a brewery at Pantelimon in the outskirts of Bucharest with an initial 500,000 hectolitres a year capacity to produce under the group's Tuborg brand, the most popular western beer brand in Romania.

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Dolj (tel: 22347171), a historic restaurant in a villa on Kisileff, an elegant, tree-lined boulevard running north of Piata Victoriei where the central government is based. Both also have indoor restaurants for the bitterly cold Bucharest winters.

Credit cards are accepted at an increasing number of restaurants and shops as well as at most large hotels but the exchange from leu will be made at the official rate which, in late June, was about 20 per cent lower than the rate to the dollar offered in the many licensed local exchange bureaux. The dollar and the mark are the most widely-used foreign currencies.

The capital has several interesting museums, notably the Museum of the Romanian Peasant (Muzeul Terenului Roman), set up after 1989 in the former communist party museum and has a wonderful, well-displayed collection of vernacular art, ranging from a wooden church and carved stone crosses to traditional costumes, icons and hand-painted Easter eggs.

No trip to Bucharest is

complete without a visit to the People's Palace or Casa

Poporului, as it is known

locally, the world's second

largest building after the

Pentagon. The palace, the

construction of which

consumed vast resources,

epitomises the megalomania of

deposed dictator Nicolae

Ceausescu and is a chilling

reminder of the suffering

Romanians endured under his

25 year regime. Nevertheless,

Casa Poporului is a modern

wonder of the world and has

to be seen to be believed.

■ Banks: by Tony Hawkins

Front-line inflation fighters

Commercial banks
are lending at a
discount below bank
rate and treasury
bill market rate

In Ghana's high inflation economy, the banks are in the front line in the battle to bring down the inflation rate and stabilise the cedi.

During the reform period, the government managed to slow inflation from 123 per cent in 1983 to 10 per cent by 1991, but much of this hard-won ground has been given up over the past five years and, by the end of 1995, inflation was back to 71 per cent.

The money supply target was overshot in every one of the past six years, invariably by a huge margin, while only once during that period – in 1991 – did government meet or better its inflation target. With evidence to show that high inflation rates have undermined economic growth in Ghana and with recent IMF research in Ghana concluding that rapid monetary growth translates into increased inflation with a six-month time-lag before the full effect is felt, the government is relying on monetary restraint to rein in the price increases during 1996.

Accordingly, in terms of the plan agreed with the IMF, the authorities will try to bring down the rate of monetary growth from 37.5 per cent at the end of 1995 to 6 per cent by the end of this year.

That is going to be a tall order and, bankers believe, one that is unlikely to be realised, though the performance in the first half of the year seems likely to be close to the targeted 20 per cent. But getting from there to 5 per cent looks unduly optimistic given the nature of the Ghanaian financial system.

In Ghana's cash-driven economy, currency in circulation is the largest single component of the money supply accounting for 36 per cent of broad money (M2) followed by demand deposits which contribute just under a third. Monetary growth is highly seasonal, accelerating in the final quarter of the year with cash payments to cocoa farmers.

This year's forecast 25 per cent to 30 per cent increase in the cocoa crop and the higher cash price received by growers, partly reflecting currency depreciation, will fuel strong currency expansion towards the end of 1996 when the authorities hope to bring monetary growth down to 5 per cent.

In the final quarter of 1995, currency in circulation grew 42 per cent from its 1994 levels and if this is repeated this year, the monetary target will be missed by a wide margin.

In the first quarter, money supply grew almost 40 per cent from March 1995 levels and dooms welcomed the subsequent upward pressure on interest rates in the money market which nudged up to 43 per cent in mid-June. Further increases are likely as the authorities seek to mop up excess liquidity in the market and restrain monetary growth.

It is an unusual – if not bizarre – situation in which commercial banks lend at a discount below both the bank rate (45 per cent) and the treasury bill market rate. The result is that some of the banks are engaging in more money market treasury operations, taking deposits from customers and recycling them into treasury bills, rather than lending to customers.

Prime lending rates are below 40 per cent, which as one banker says, means that every time he makes a loan he is taking a loss on the transaction. In reality, of course, the banks make up their difference from fee and trading income, which is driving banking "right-sizing".

This raises all sorts of doubts about the efficacy of monetary policy as a tool for fine-tuning the Ghanaian economy. If banks lend below the market rate because they must meet the needs of important customers and secure access to foreign exchange, and if currency in circulation is the driving force in monetary expansion, then interest rate policy may well turn out to be a limp-wristed business.

On the other hand, because the market is dominated by the state-owned banks – with small lending portfolios relative to their deposit base and investment ratios – interest rate policy does influence the behaviour of the larger institutions.

According to the most recent survey of Ghana's banks, carried out by Price Waterhouse Associates, the country's largest bank, ranked by assets, the state-controlled Ghana Commercial Bank had a loan-to-deposits ratio of only 11 per cent compared with 25 per cent for Barclays Bank Ghana and 24 per cent for Standard Chartered Bank, ranked third and fourth respectively in the banking league table.

In terms of deposits the two state-owned banks have more than 40 per cent of the market (measured by the operations of

Ghana's leading banks (1994)			
Banks	Deposits (cedis bn)	Advances (cedis bn)	Profit after tax (cedis bn)
Ghana Commercial	260.4	28.6	33.3
Social Security	121.0	21.3	11.5
Barclays	123.3	30.6	4.9
Standard Chartered	114.6	27.2	8.6
Merchant Bank Ghana	55.7	29.3	5.5

Source: Price Waterhouse Ghana Banking Survey 1994 (November 1995)

the 12 leading banks), with Ghana Commercial Bank (GCB) holding a 29 per cent market share and Social Security Bank 13 per cent. Barclays, with almost 14 per cent and Standard Chartered with 13 per cent, are the other two leading institutions, giving four banks approximately 70 per cent of the deposit market.

With spreads – between deposit and lending rates – of 20 per cent and more, banking is a highly profitable business, especially where cautious lending policies are adopted. Here, the state-owned banks are at a disadvantage, partly because of a huge branch structure and high labour costs (in the case of Ghana Commercial Bank), but also because they have borne the brunt of "political" lending to state enterprises and other poor credit risks. In 1994, GCB's staff costs were two thirds of its operating expenses compared with less than 60 per cent for Barclays and 56 per cent for Standard Chartered.

In reality, of course, the banks make up their difference from fee and trading income, which is driving banking "right-sizing".

across Africa, has since cut its staff substantially and others are following suit.

When it comes to provisions, the state banks, GCB and SSB, had 1994 loan loss provisions of 43 per cent and 36 per cent of their loan portfolios respectively against 13.5 per cent for Standard Chartered and 6 per cent for Barclays. This explains why financial sector restructuring plays so important a role in the country's reform programme: the process started with the progressive liberalisation of the financial sector during the 1988-1991 period during which interest rates were liberalised, credit allocation targets abolished and fees decoupled.

In 1989, more than 30bn cedis in bad loans was removed from bank balance sheets as most of it converted into bonds and the balance handed over to the Nonperforming Assets Recovery Trust (Npart) for recovery.

Phase two of restructuring includes the sales of shares in state banks – 42 per cent of GCB has been sold and 30 per cent of SSB – though the plan of selling a further 30 per cent in each case to a strategic (presumably foreign) bank to take over management is yet to be implemented. Another four banks are on the divestiture list.

Foreign banks are certainly interested in entering this profitable market – in recent years both Stanbic of South Africa and the Hong Kong Shanghai

banking group have arrived – though the attraction is diluted somewhat by the depreciation of the cedi.

Whether a foreign bank would want to take on a retail-type operation without full management control is another matter, and if Accra really wants foreign banks to take a stake in operations such as GCB, it may have to rethink its strategy.

■ Industry: by Tony Hawkins

Hard times for manufacturers

Inflation tops the list of problems, followed by a depreciating cedi and high interest rates

Industrialists, reflecting on six years of stagnation during which manufacturing's share in GDP declined from 10 per cent to some 7.5 per cent last year, are virtually unanimous about both the causes of decline and the solutions.

Inflation tops the list of problems, closely followed by its side-effects – a fast-depreciating cedi and high nominal interest rates.

Cadbury Ghana, which produces confectionery for the local market, blames the fact that more than 80 per cent of its inputs are imported. In an economy where real wages are falling and unemployment increasing, success depends on building market share, which Cadbury has managed to do very successfully. Cedi devaluation is helping by pricing direct imports out of the range of most consumers. But with widespread smuggling and evasion of customs duties and tariffs, effective protection is significantly lower in practice than in theory.

Unilever tells a similar story; it is less at risk from rising input prices – imports account for about a third of total costs – but its main competition comes from direct imports, and it, too, suffers from smuggling.

Unilever's experience says a great deal about the changing nature of the Ghanaian consumer market. Five years ago, between 60 per cent and 70 per cent of its sales were in urban areas; today that proportion has dropped to between 40 per cent and 50 per cent reflecting the recovery of the cocoa industry, the expansion of the mining and timber industries and the growth of self-employment in rural areas.

Unilever, which like Cadbury has bucked the trend in the manufacturing sector as a whole, attributes its strong performance also to building market share in a slow-growth consumer market.

Cost savings, productivity gains, a focus on quality and service, a sales effort thrust into the more prosperous rural areas and a measure of protection afforded by cedi devaluation have all contributed to this above-average performance.

Industrialists say that the established multinationals have fared better during this phase of de-industrialisation – measured by manufacturing's declining share in GDP – because they are less vulnerable.

Due to the high cost of funds than Ghana's small and medium-scale industries. More important, perhaps they enjoy the benefits of brand loyalty of their offshore parents and of scale economies.

Claims that Ghana is being de-industrialised are rejected by donor agencies which argue that the country is simply undergoing the process of normal structural change from a situation of over-protection and inward-focused industrialisation. They point, too, to the strong growth of small-scale enterprises in rural areas, whose output is not captured in the official statistics.

Whatever the past trend, it is clear that sustained economic growth and poverty reduction in Ghana depend on a strong manufacturing sector. The World Bank's medium-term projections assume that de-industrialisation will be reversed in the second half of the decade during which period manufacturing industry will keep pace with GDP growth of around 5.5 per cent annually. But according to the Accra-based Institute of Economic Affairs (IEA), this will happen only if Ghanaian industry can become internationally competitive so that it can build sales in export markets while fighting off competition from imports at home.

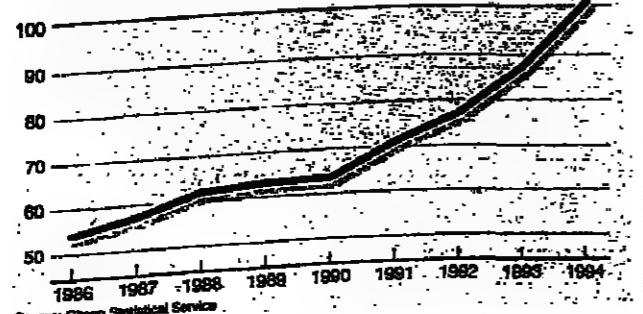
This sensible conclusion sits uncomfortably with official enthusiasm for micro and small-scale industries, which are unlikely to become competitive in export markets where style, quality and technology count more than production costs. Not only that, but all agree that manufacturing development in Ghana is constrained by infrastructural deficiencies and the scarcity of technical and managerial skills. The fact that the multinationals are finding it easier to survive and prosper in the post-reform era underscores the implausibility of small enterprise-driven industrial growth.

Finance is a serious constraint, too – and not just for the small operators. Nominal interest rates of 40 per cent and above are an important deterrent to investment and expansion, even for those able to access the funds. Many – indeed most – smaller businesses are shut out of the market altogether.

"The reality," says Dr Justice Addison, president of the Association of Ghana Industries, "is that banks find lending to the government (by buying treasury bills) almost risk-free, with good returns compared to a riskier private sector."

Industrial production

Volume Index 1977=100



Source: Ghana Statistical Service



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4 GHANA

■ Gold: by Michael Holman

Predator may be stalking Ashanti

These are exciting times for the industry that is the largest foreign exchange earner.

Ghana's gold boom continues apace. The sector's flagship company is thriving, but a foreign predator may be prowling.

Barely two years after Ashanti Goldfields helped blaze the African privatisation trail in one of the largest and most successful state divestitures the continent has seen, speculation is rife that South Africa's Anglo American Corporation is stalking the company.

The combination of a spate of acquisitions by an Ashanti management determined to resist, coupled with the fact that the Ghana government still holds a 20 per cent stake as well as a "golden share" makes the company a formidable target.

Whatever the outcome, it all

makes for exciting times in the industry that has supplanted cocoa as the country's largest foreign exchange earner.

Gold exports earned \$647m last year, representing around 40 per cent of total foreign exchange earnings. Production is set to reach 1.7m ounces in 1996 and the sector is capable of doubling that output by early next century.

Investors from as far afield as Australia, Canada, Britain, and South Africa are taking part in the search for the mineral that was at the heart of commercial interest in the region a century ago.

The rise and fall and subsequent revival of the gold mining in Ghana reflects the fortunes of the country as a whole.

In 1960, just three years after independence, the country's gold production was 913,000 ounces.

By 1983, when Ghana was reeling under the consequences of failed socialist poli-

cies of founding president Kwame Nkrumah and a succession of military coups, output had fallen to 261,000 ounces.

Recovery owes much to the Rawlings' government decision in 1983 to implement a reform programme based on market-determined exchange rates and a supportive climate for the private sector.

Today, nine large-scale companies, including Goldfields Ghana, a subsidiary of Goldfields of South Africa, are taking advantage of one of Africa's most attractive investment climates.

The company's Tarkwa mine raised production to 23,000 ounces, but development is likely to concentrate on open-cast mining of reserves thought to exceed 7m ounces elsewhere on the Tarkwa concession.

A further 50 companies have mining leases, and another 150 own prospecting licenses, while 565 small-scale licensed

mining operations make their own contribution to the gold boom - 30,000 ounces last year.

But far ahead of the field is Ashanti Goldfields, the Ghana-led mining house which accounts for the bulk of the country's production and which went public in 1984.

Although costs have been rising, at \$208 an ounce, Ashanti remains among the lowest-cost one third of world gold mines.

Ashanti's operations are centred on deposits close to Obuasi, where its total ore reserves and open-pit resources exceed 20m ounces, but estimates suggest they could be nearer 50m ounces, one of the largest in the world.

The company's gold production and reserves could well double in the next five years, say analysts, which would make Ashanti one of the world's top five producers.

In April 1994 Ashanti was listed on the London and Ghana exchanges, with the government of Ghana selling 30 per cent of its 55 per cent interest for \$45m.

Earlier this year Ashanti became the first indigenous African company to be fully listed on the New York stock exchange, and was also recently listed on the Toronto exchange.

It has proved a landmark for a company founded 100 years ago, run down in the 1970s, and revived under the leadership of a former shift boss, Sam Jonah, now chief executive.

Production has soared from 340,000 ounces in 1986 to just

over 932,000 ounces last year. With investment running at \$140m this year alone, the company is continuing to expand, rehabilitate, and modernise programmes at home as well as press ahead with the search for new assets abroad, though not without experiencing some setbacks.

While production at the company's mine at Obuasi is set to stay constant at around 900,000 ounces,

say company officials.

But disappointment at failing to reach the 1m target was compounded by developments on other fronts - notably purchases which are turning Ashanti into a leading operator on the continent as a whole.

But Ashanti's rapid expansion is also seen by analysts as a defensive tactic against a possible takeover by Anglo American Corporation of South Africa.

Anglo got its foot in the door

when it acquired 6 per cent of Lourobo, which owns 37 per cent of Ashanti, from Dieter Bock, Lourobo's chief executive, who says he plans to demerge the group's mining interests.

Anglo also has the first right of refusal on Mr Bock's remaining 15 per cent of Lourobo.

The acquisition spree began at the start of this year, when Ashanti announced that its

offer for Cluff Resources had been unconditionally accepted.

Cluff has a 75 per cent interest in the Ayanfuri Mine 50km south-west of Obuasi, with a forecast production of 40,000 ounces in 1996. Further licences in northern Ghana cover 900 sq km of the Nadjodi site. This is only a small proportion of what awaits discovery.

Cluff also manages the Freda Rebecca mine through the 75.4 per cent owned Cluff Zimbabwe, expected to produce 90,000 ounces in 1996.

The attitude of the Ghana government would be an important issue should Anglo pursue a takeover bid. The government not only retains a substantial shareholding - just over 20 per cent, having reduced its stake by 5 per cent earlier this year - but also has a "golden share" to block an unwelcome predator.

The wholly-owned subsidiary, Ashanti Exploration Ltd (AEL), continues to explore properties in Guinea, Mali, Niger and Zimbabwe, with applications pending in Eritrea, Ethiopia, Sudan and Tanzania.

This is expected to start up within two years, producing 260,000 ounces annually at a production cost of around \$160 an ounce.

The third acquisition was an agreed \$200m share exchange offer for Australia's Golden Shamrock Mines, which has a 70 per cent interest in the Idiontsem open-pit mine near Tarkwa, Ghana, producing between 120,000 and 150,000 ounces a year, and a 70 per cent stake in the Sigwirl open-pit gold project in Guinea, with an option to increase this 25 per cent.

Cluff and other interests will allow the enlarged Ashanti group to come close to the 1m-ounce mark by 2001, says

James Anaman, Ashanti's corporate affairs manager.

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Ashanti is also a partner with JCI of South Africa in Mali, and IAMGOLD, via a subsidiary called AGEM Ltd, which started the Sadiola mine in Mali in conjunction with Anglo American.

"Looking forward five years," says Sam Jonah, "we want this company to be the truly authentic, African multinational corporation, using its experience to assist as partners in the active development of the gold mining industry in Africa."

"In future there will be a handful of international mining companies operating worldwide, and Ashanti will be one of them. We will be the leading player in Africa."

Stock Exchanges: by Tony Hawkins

Sparkle starts to fade

The market continues to lag both inflation and the devaluation of the cedi

After two sparkling years in which share prices rose 116 per cent in 1993 and 124 per cent the following year, Ghana's fledgling stock market has run out of steam.

Last year, the GSE All-Share index rose only 6 per cent taking market capitalisation to 2,400bn cedies (\$1.8bn), but trading volumes declined sharply, falling 40 per cent to 58m shares.

Domestic buyers were deterred by the combination of rapid inflation and sharply higher returns available in the money markets.

In the first half of the year, too, many investors were attracted by the promise of 30 per cent monthly interest from the so-called "Wonder Banks" - non-bank financial institutions.

Predictably, these operations were short-lived and their activities ceased in mid-1995. Foreign investors stayed out of the market, too, partly because the international institutions were looking for much larger parcels of shares than were available in Accra's highly illiquid market, but also because cedi depreciation undermined hard currency returns.

Since its inception at the end of 1990, the GSE has attracted 20 listings, of which Ashanti Goldfields (AGC) is far and away the star performer. AGC's market capitalisation on the GSE in mid-June was just below 2,800bn cedies or 87 per cent of the entire Ghanaian stock market.

The second largest company is Ghana Commercial Bank (GCB), capitalised at 110bn cedies or 3.4 per cent of the total, followed by Standard Chartered Bank with 81bn cedies (2.5 per cent). Social Security Bank and Unilever Ghana account for a further 112bn cedies (3.5

per cent), leaving the rest of the market, comprising 15 listings, to make up the balance of around 3.5 per cent of the total.

The exchange has caught the public's imagination, with the 33,000 Ghanaian investors participating in the Ashanti privatisation, and 25,000 buying shares in Social Security Bank. In the most recent sell-off, more than 70,000 individual investors bought shares in the GCB issue which was 38 per cent oversubscribed.

There has been relatively little buying by domestic institutions other than the state-owned Social Security and National Insurance Trust which is by far the largest local operator in the domestic money and capital markets.

Foreign institutions, which own a substantial share of Ashanti - one estimate is that at least three quarters of Ashanti is owned offshore with most of the 25 per cent or so held in Ghana, being the government's stake - have been

active in the past, especially in 1994 period when dollar returns on the GSE exceeded 70 per cent.

The foreigners are looking for substantial parcels of shares which tends to mean participation in new issues and especially privatisation offerings.

The Ghana Telecoms offer, expected by the end of the year, is likely to attract significant foreign buying, depending on who gets the nod as strategic partner and how much of the offer is targeted at offshore buyers.

In the meantime, the market continues to lag both inflation and the devaluation of the cedi, with the index gaining only 14 per cent in the first half of the year against estimated inflation since December of around 20 per cent and a 12 per cent currency depreciation.

A combination of new offerings, and lower inflation and interest rates is needed for the market to regain some of its 1993/4 momentum.

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■ Cocoa: by Michaela Wrong

Bumper bean crop expected

Ghana's cocoa continues to enjoy a reputation as the best in the world.

If the free market economy is premised on the belief that the best way of ensuring future efficiency is to reward good performance, the maxim appears in danger of being ignored when it comes to Ghana's cocoa industry.

This crucial national sector, which shrank by 60 per cent between the early 1980s and mid-1990s as a result of poor producer prices, high taxes, drought and bush fires, is now looking better than it has for decades.

Output last year was 309,000 tonnes, the highest for 20 years, and the government is predicting a bumper crop of just under 400,000 this year. Coming second only to gold in terms of foreign exchange earnings, the sector earned Ghana \$423m in 1995.

Producer prices were last month raised to £2m cads (710 dollars) per tonne, ensuring farmers who once received 15 per cent of the world price now get 51 per cent. Cocobod, the once overstuffed government board, is now a lean institution run by a fraction of its original employees. Ghana's beans continue to enjoy their reputation as the best in the world.

Despite such achievements, the Bretton Woods institutions overseeing the country's structural adjustment programme are pressing hard for further reform in the face of strong resistance from a government understandably sensitive to any measure affecting a sector on which a quarter of the population depends.

The irony is that the government and industry experts are not the only people arguing that the premium fetched by Ghana's cocoa beans on the world market may well justify retaining the controversial status quo.

A group of independent consultants asked by the World Bank to weigh up the pros and cons of changing the current system, under which internal marketing has been liberalised but external marketing remains in Cocobod's control,



A checking system ensures that cocoa beans sold to the international market retains its quality

recently concluded that the existing monopoly should be retained.

The British consultancy's preliminary findings were bluntly rejected by the World Bank which sent them away to think again. An International Monetary Fund (IMF) internal document, while insisting that the Ghanaian government had "indicated its desire to remove the Cocoa Board's monopoly", concludes: "the government has asked the consultants to undertake a more in-depth analysis of the issue involved."

An interview with Dr K.J. Adjei-Maafo, head of Ghana's Cocoa Policy Unit, paints a slightly different picture. "An independent group is telling us that the system we have now is the best and the World Bank is refusing to accept it. If you pay for a job to be done and then say you won't accept it because it doesn't go in your direction, it's not fair," says Dr Adjei-Maafo.

He says Cocobod's quality checking system means low quality beans are being caught before export and processed locally, ensuring cocoa being sold to the international market retains its quality. "The buying companies are on a learning curve and as a proportion of the crop the problem is insignificant. But if we grow complacent it could get out of hand."

The result, says Joe Atiamo, Cocobod's chief executive, has been a noticeable drop in quality. With a bevy of rival buyers competing for produce, farmers are under pressure to sell quickly and some beans are being transported before they have been properly fermented, then stored in substandard warehouses.

"With some buyers offering cash, stealing cocoa also becomes profitable. The farmer now has a security problem and to limit the risk he may try to transport cocoa before it is ready," says Mr Atiamo.

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locally, ensuring cocoa being sold to the international market retains its quality. "The buying companies are on a learning curve and as a proportion of the crop the problem is insignificant. But if we grow complacent it could get out of hand."

The next few years are likely to see a winnowing out, with several buying companies deemed to have behaved irresponsibly expected to lose their licences.

But the problems remain significant enough to warrant a pause for thought before ploughing headlong into further liberalisation, argues the head of the Cocoa Policy Unit. He cites the fall in standards experienced in other African cocoa-producing countries which have swallowed the World Bank medicine - such as Benin, Nigeria and Cameroon - as lessons Ghana, so much more dependent on cocoa in terms of revenue, needs to learn from.

"At the moment we are containing the problem internally;

but that doesn't eliminate it. The World Bank should give us a breathing space to work out those problems before we tackle external marketing. We just need a bit more time," says Dr Adjei-Maafo.

Although according to the IMF the government is meant to deliver its judgment on cocoa sector reform by mid-September, there is another good reason to stall.

In the forthcoming elections, President Rawlings is expecting to score far higher in rural areas, whose voters he has wooed over the years with fertilisers, pesticides, electricity and feeder roads, than in the opposition-dominated cities. Any changes that would alarm the farming community risks seriously damaging his electoral prospects.

"As a government we have concentrated on rural areas and that is what is going to bring us back to power," acknowledges Dr Adjei-Maafo.

"If I implement measures unpopular with the farmers, I lose votes for the president."

The Slave Route project is at the heart of efforts to promote Ghana as a tourist destination

■ Tourism: by Michael Holman

Painful past recalled

Ghana is turning its painful past to advantage as it prepares to promote tourism.

Castles built between the 15th and 18th centuries by the colonising powers, and which served as embarkation points for the slave trade, have become the focal points in a pilgrimage in which African Americans are tracing the route their forefathers followed.

More than 50 weather-beaten castles built by the Portuguese, Dutch, Danes, Germans, Swedes and British dot the country's coastline, and three have been designated by Unesco as World Heritage sites - St George's Castle and St Jago Fort at Elmina, and Cape Coast Castle at Cape Coast.

The Slave Route project, as it

is known, initiated by the World Tourism Organisation (WTO), is at the heart of Ghana's efforts to promote the country as a tourist destination.

Half the total rooms available are not considered suitable for international tourists.

Yet, with appropriate investment and management, Ghana could make more of what it has to offer. As well as the castles dotted along the coastline, the country boasts some fine beaches, several game parks, a low crime rate and a tradition of hospitality to visitors.

But the poor infrastructure needs to be radically improved if the country is to meet the standards expected by international travellers.

The Mo National Park, for example, the largest of the national parks, covers nearly 5,000 square kilometres of rolling savanna and rivers and streams, with elephants, buff-

falo, several species of buck, lion, and leopard within its boundary.

But the lodge needs upgrading, as do the viewing tracks, and only a few thousand visitors a year make the journey.

More could also be made of the huge Volta Lake, with only one comfortable hotel on its shores - at Akosombo - while consultants have also recommended a variety of ways of attracting visitors.

These ideas range from providing comfortable carriages on the railway from Accra to Takoradi and Kumasi, which takes in a scenic stretch of the country, to deep sea fishing and cruises on Lake Volta, as well as cultivating niche markets, such as bird-watching expeditions.

The requirement that visas be obtained before arrival is a deterrent for would-be tourists, notes the report, adding that a further disincentive to would-be visitors is the fact that the cost of staying in the leading hotels in Accra "is also relatively high when compared to the quality level of facilities and services provided".



The beaches are often enticing in appearance

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- ◆ creating goodwill for Ghanaian products through overseas and local trade fairs and exhibitions;
- ◆ providing exporters with the necessary assistance for penetrating the competitive international market;
- ◆ organising market missions to enable Ghanaian exporters meet prospective overseas buyers;
- ◆ assisting businessmen travelling abroad with information on target markets;
- ◆ providing advice on export marketing to exporters;
- ◆ training exporters and personnel of export facilitating institutions to upgrade their skills in export marketing;
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6 GHANA

■ Politics: by Michela Wrong

Rawlings faces tougher test

The hot-tempered president confronts an opposition still seeking unity in the elections

Six months after the event, Ghanaians are still talking about it: the infamous cabinet meeting at which President Jerry Rawlings manhandled his vice-president, knocking him to the ground and – according to the latter's account – kicking him as he lay squirming, merely confirmed what most people already knew: that after 15 years at the helm their leader is still inclined to resort to unconventional methods when faced with dissent.

But the hot-tempered Mr Rawlings, who twice seized power at the barrel of a gun before ushering in multiparty democracy, will be under pressure to play by the rules in December. That is when Ghanaians once again go to the polls in what most observers agree will be a far tougher test for the president and his National Democratic Congress (NDC) than the 1992 elections.

Conveniently for the government, those polls were boycotted by the opposition, which claimed the electoral register

had been tampered with, thereby handing the NDC control of the 200-seat parliament. This time the playing field will be a little more level.

A new electoral register has been drawn up and donor funds made available for transparent ballot boxes, indelible ink and monitors. With five private radio stations now licensed and a host of anti-government newspapers in circulation, the opposition no longer complains about media access.

In addition, an already dangerously high inflation rate means the government can ill afford a repeat of the run-up to the last elections, when it granted the public sector large pay increases and awarded a spate of construction contracts, winning votes but sabotaging the economic recovery.

All this comes at a time in their history when Mr Rawlings is looking his weakest. The once-united NDC is riven by dissent. Seventy-five MPs who were deselected at party primaries are flirting with the opposition or threatening to stand as independents unless they win "compensation". The clumsy handling of a drugs scandal at the Ghanaian embassy in Geneva and revelations of corruption among top officials have also tainted the government's

image. But most damaging is the growing exasperation of a swathe of voters – city dwellers, businessmen and students – at the failure to achieve prosperity after 13 years of structural adjustment.

This section of the population, hard hit by unemployment and rising prices, blames Mr Rawlings for failing to create the much-promised "enabling environment" for the private sector, claiming he has favoured party supporters while harassing political foes.

Since the president's remarkable conversion from leftist revolutionary to market-driven reformer always appeared somewhat half-hearted, they argue, he never succeeded in convincing Ghanaians scarred by the past it was now safe to invest at home.

"Rawlings has worn out his welcome in a lot of places," says a diplomat. "His mish-mash of revolutionary ethics and IMF prescriptions has taken its toll on the country and many feel it now needs to be brought to an end."

Yet most analysts believe the president is still likely to win, albeit with the prospect of a much-reduced parliamentary majority for the NDC, thanks to that traditional African stumbling block: a divided opposition.

The real problem is one of party ego. Both the PCP's candidate, vice-president Kow Arkah, and Mr Kufour insist they are ready to take the

two main opposition parties – the New Patriotic Party (NPP) and the People's Convention Party (PCP) – are still debating how to avoid splitting the anti-government vote by presenting a single presidential candidate and joint candidates in the constituencies.

"If my party and the PCP agree to team up, a substantial chunk of opposition forces will unite," says John Kufour, the lawyer-turned-businessman who has replaced Professor Adu Boahen at the helm of the NPP.

Admittedly, ideological roots stand in the way of such an alliance. The PCP is a grouping of quasi-socialist movements drawing inspiration from Kwame Nkrumah, Ghana's first president. The NPP, their long-time political rivals, belong to the right-wing Busia-Danquah tradition.

While such distinctions matter to the participants, the widely-accepted need to continue structural adjustment has emptied them of content. In any case, past quarrels have little meaning for the electorate, 70 per cent of whom are under the age of 50.

In addition, the courts are due to review a controversial legal ruling barring Kwame Pianin, a popular economist, from standing, risking a further muddying of the waters



Kow Arkah: vice-president challenging Rawlings



John Kufour: a businessman turned politician



Fortress Elmina, where slaves were once kept

Photo: Michela Wrong

Business guide

Stroll at dusk across the lush lawns spilling out from the Cocoa Research Institute clubhouse, a throwback to the days of the British Empire, and you are immediately engulfed in the melodic sounds of the African night: crickets, cicadas, frogs, and the croaking of frogs as they settle for the evening.

The Institute is a two-hour drive from Accra, on a route that winds its way up the escarpment, through a series of cheerful villages, past the Aburi Botanical Gardens – planted in the 19th century – to culminate in the cool highlands of Tafo.

Like many tourist facilities in Ghana, the dilapidated guest houses, once the homes of British cocoa experts, fall well short of international standards, but the tranquillity offered by this former enclave of colonial scientific excellence is appreciated by weekend visitors fleeing the rigours of steamy Accra.

Escaping the capital – whether it involves driving to Tafo, the 15th century slave-trading fort dotted along the palm-fringed coast, the hotel overlooking the Akosombo dam, or the Kakum National Park – has become a priority since Ghana's economic recovery brought with it the combined disadvantages of congested streets and overbooked hotels.

The city's infrastructure is visibly straining at the seams and working here is no longer as pleasant as it once was. Time spent in traffic jams – allow more than half an hour between appointments if you have to travel across town – can be put to good use by renting a mobile phone from Mobitel (telephone 027 5510 00), although the facility is expensive. As in so many African countries, it is often easier to ring abroad than locally, but you pay through the nose for the privilege.

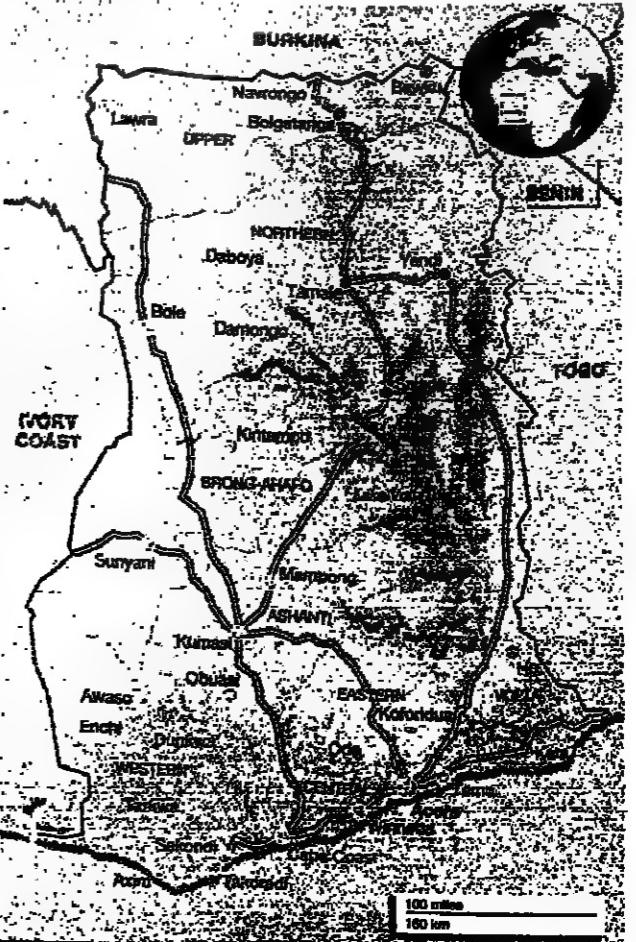
Hotels are best booked in advance as there is a marked shortage of top-class accommodation. Although President Rawlings recently reminded delegates attending an international investment conference that 15 years ago they would have had trouble finding rooms, telephones or even water for their baths, there are still only 650 rooms that fall into the three to five-star category.

Several hotels are being built or renovated, but the current dearth of competition means prices are high – as much as \$250 a night.

If Accra has its hazards, violent crime – scourge of so many African capitals – is not one of them. Ghanaians are rightly proud of the fact that their capital remains a safe city to stroll around in, even at night.

Apart from the usual tropical vaccinations, travellers are advised to start a course of anti-malaria pills before they arrive. They may get conflicting advice from doctors over which type of medication is currently considered most effective against the

Michela Wrong



GHANA TOURIST BOARD

TREASURES OF GHANA'S CENTRAL REGION



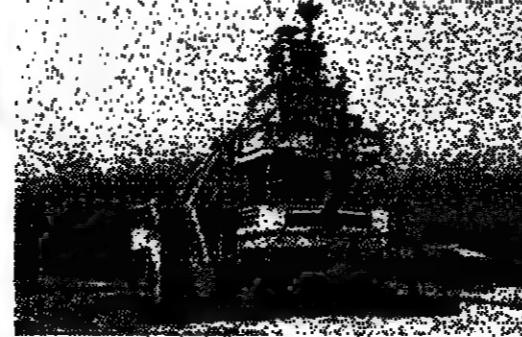
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forests, colourful festivals celebrating the chieftaincy, mouth-watering seafood and Africa's friendliest people, Ghana is a wonderful find. The exuberant Ghanaian hospitality – expressed heartily in the traditional greeting "akwaba" or "welcome" – will warm you. You will feel at home in Ghana, the land of legends, while discovering its unparalleled traditions and beauty.

For detailed information, travel brochures, maps, hotel lists and suggestions for tour itineraries, events and sightseeing for groups and individuals please contact:

Ghana Tourist Board Head Office
P.O. Box 3105, Tesano, Accra Tel: (233) (21) 665441 • Fax: (233) (21) 662375

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LONDON STOCK EXCHANGE

MARKET REPORT

Footsie holds steady despite Wall Street jitters

By Peter John

With equity gale warnings from over the Atlantic still threatening, London's dealers sailed into yesterday's session on a remarkably even keel.

Friday's late 11-point fall on Wall Street prompted a brief flurry of nervousness which saw the FTSE 100 index marked down nearly 20 points at the start of trading.

But the reaction was cushioned by a number of short positions in the UK and the Footsie rallied throughout the morning. The principal rationale for a calmer outlook was the latest set of UK economic data, which pointed to a more sub-

ddued outlook for inflation, thus dampening concern that the next move in interest rates could be up.

The data showed that output in May was above some expectations but, more significantly, output prices in June were below most economists' forecasts.

Also, the latest Merrill Lynch Gallus Survey showed that UK fund managers, while net sellers in the short term, are becoming more optimistic on the outlook for UK equities on a one-year view.

Thirdly, hopes of corporate activity were built into the market. Traders latched on to a leaked report discussing the prospect of merging the Guinness and Grand

Metropolitan drinks divisions.

That combination of relief and support saw the Footsie gain almost 8 points by mid morning, with the help of a more positive attitude in the futures market. The contract on the Footsie which expires in September moved back in line with its estimated fair value. It had been trading at a sharp discount.

"Friday's situation on Wall Street had happened before and everyone is very wary about reacting too fast," commented one senior trader. "It is all very technical, and the real key is whether inflation is getting out of hand."

However, another dealer, who

feels that past market rebounds following strong US job numbers might have lulled traders into a false sense of security.

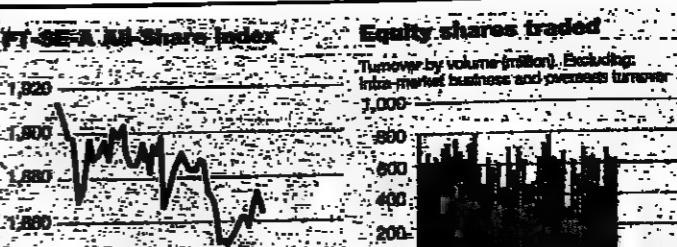
"We are still short on balance and it will be some time before the position is corrected. But I would be very surprised if we didn't see Wall Street down below 5,450 soon, and when that happens I think we are really going to struggle," he said.

For a pointer to inflation, the market has to wait until Friday when provisional US consumer price data for June are published. The figures are expected to be the focus of the week as there is little happening in terms of UK corporate results or economic data.

That lack of potentially meaty information ensured that, in spite of its apparent inactivity at the start of trading, the Footsie watched Wall Street nervously. It lost its mid-morning gain ahead of the US opening and then traded back up again after the Dow opened stronger, and ended the day only 1.7 lower at 3,741.5.

On the other hand, the FTSE Mid 250 index, which had avoided Friday's sharp falls, reacted belatedly with a slide of 2.7 to 4,359.5.

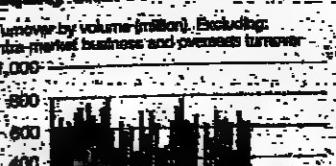
Turnover of 508m shares was split evenly between Footsie and non-Footsie stocks and was down from Friday's level when genuine customer business was worth £1.7bn.



Indices and ratios

FTSE 100	3,741.5	-1.7	FT Ordinary Index	2746.3	+2.4
FTSE Mid 250	4,359.5	-2.7	FTSE+ Non Fins p/c	16.85	16.88
FTSE-A 350	1,684.75	-3.97	FTSE 100/Fut Jul	3735.0	-3.0
FTSE-A All-Share	1,684.75	-3.97	10 yr Gilt yield	7.34	7.57
FTSE-A All-Share yield	3.85	3.85	Long gilt/equity yield ratio	2.16	2.16

Equity shares traded



Worst performing sectors

1 Alcoholic Beverages	+1.9
2 Electronic & Elect	+0.4
3 Oil - Integrated	-1.2
4 Mineral Extraction	-0.1
5 Paper & Print	-0.1

Investment Trust -0.9

FUTURES AND OPTIONS

II FTSE 100 INDEX FUTURES (LIFFE £25 per full index point)

Open	Set price	Change	High	Low	Ext. vol.	Open Int.
Sep 3717.0	3725.0	-5.0	3744.0	3715.0	0	10882
Dec 3750.0	3750.0	0	3752.0	3748.0	0	1511

III FTSE MID 250 INDEX FUTURES (LIFFE £10 per full index point)

Open	Set price	Change	High	Low	Ext. vol.	Open Int.
Sep 4340.0	4340.0	-20.0	4342.0	4338.0	0	3740

IV EURO STYLE FTSE 100 INDEX OPTION (LIFFE £10 per full index point)

Open	Set price	Change	High	Low	Ext. vol.	Open Int.
Sep 3550 3600 3650 3700 3750 3800 3850 3900	3575 3625 3675 3725 3775 3825 3875 3925	-205 -50 -50 -50 -50 -50 -50 -50	3575 3625 3675 3725 3775 3825 3875 3925	3525 3575 3625 3675 3725 3775 3825 3875	0 0 0 0 0 0 0 0	1829 1829 1829 1829 1829 1829 1829 1829
Sep 3850 3900 3950 4000 4050 4100 4150 4200	3875 3925 3975 4025 4075 4125 4175 4225	-205 -50 -50 -50 -50 -50 -50 -50	3875 3925 3975 4025 4075 4125 4175 4225	3825 3875 3925 3975 4025 4075 4125 4175	0 0 0 0 0 0 0 0	1829 1829 1829 1829 1829 1829 1829 1829

V EURO STYLE FTSE 100 INDEX OPTION (LIFFE £10 per full index point)

Open	Set price	Change	High	Low	Ext. vol.	Open Int.
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VI FTSE 100 INDEX OPTION (LIFFE £10 per full index point)

Open	Set price	Change	High	Low	Ext. vol.	Open Int.
Sep 3550 3600 3650 3700 3750 3800 3850 3900	3575 3625 3675 3725 3775 3825 3875 3925	-205 -50 -50 -50 -50 -50 -50 -50	3575 3625 3675 3725 3775 3825 3875 3925	3525 3575 3625 3675 3725 3775 3825 3875	0 0 0 0 0 0 0 0	1829 1829 1829 1829 1829 1829 1829 1829

Major Stocks Yesterday

Vol.	Closing	Days	Price	Chg.
1,400	1,400	1,400	1,400	-1.00
1,200	1,200	1,200	1,200	-1.00
1,100	1,100	1,100	1,100	-1.00
1,000	1,000	1,000	1,000	-1.00
900	900	900	900	-1.00
800	800	800	800	-1.00
700	700	700	700	-1.00
600	600	600	600	-1.00
500	500	500	500	-1.00
400	400	400	400	-1.00
300	300	300	300	-1.00
200	200	200	200	-1.00
100	100	100	100	-1.00
50	50	50	50	-1.00
25	25	25	25	-1.00
10	10	10	10	-1.00
5	5	5	5	-1.00

Spirits surge on bid buzz

Details by Guinness that it had any intention of making a hostile bid for Grand Metropolitan, or of demerger, or selling its brewing interests failed to extinguish speculation over the two stocks.

GrandMet rose 10 to 440p, the fastest moving stock in the Footsie, while Guinness put on 14p. The market mulled permutations of media reports that Guinness had asked Lazard Frères, its lead merchant bank, to review the possibility of a £1.3bn takeover of one of its main competitors in the drinks industry.

One analyst said Guinness's denial did not rule out a merger and that, should there be a bid for GrandMet, Guinness might be interested in acquiring DHC.

Nevertheless, the market was fairly unanimous in its view that the disclosure was a "hostile" move and that it had signalled that, should there be a bid for GrandMet, Guinness might be interested in acquiring DHC.

Positive comment from several brokers helped pharmaceuticals giant Glaxo Wellcome recover from an early retreat, following weekend news that it had lost the legal battle in the US to prevent competition for its top-selling anti-ulcer drug Zantac.

Having fallen to a low of 87p, the share recovered to end the session just off at 87.3p, in volume of 7.7m. Several analysts were keen to point out the ruling was not a surprise and many had in fact discounted such an outcome in their outlook for the company.

Losses in the trade were also limited by the prospect of the company making an upbeat presentation at this week's international conference on AIDS

time Set to
Bell Canada

A deal still high

EU telecoms stake

High cancer move

Vitamin A bid

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ing venture

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WORLD STOCK MARKETS

	EUROPE						NORTH AMERICA						ASIA/PACIFIC						LATIN AMERICA						MIDDLE EAST					
	High	Low	Yld	P/E	High	Low	Yld	P/E	High	Low	Yld	P/E	High	Low	Yld	P/E	High	Low	Yld	P/E	High	Low	Yld	P/E	High	Low	Yld	P/E		
AUSTRIA (All B / Sel)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
Belgium (All B / Sel)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
Denmark (All B / Sel)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
Finland (All B / Sel)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
France (All B / Fr)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
Germany (All B / Dm)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
Ireland (All B / Irl)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
Italy (All B / Lira)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
Netherlands (All B / Fr)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
Portugal (All B / Escudo)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
Spain (All B / Pta)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
Sweden (All B / Kr)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
Switzerland (All B / Fr)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
UK (All B / P)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
Yugoslavia (All B / Drachma)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
EUROPE	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
GREECE (All B / Drachma)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
ITALY (All B / Lira)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
NETHERLANDS (All B / Fr)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
PORTUGAL (All B / Escudo)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
SPAIN (All B / Pta)	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050	1,050	3.2	1,050	1,050
SWEDEN (All B / Kr)	1,050	1,050	1,050	3.2	1,050</td																									

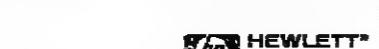
NEW YORK STOCK EXCHANGE PRICES

2008																				
High Low Stock				Mid				Low				Close				Open				
Mo	Tu	We	Th	Mo	Tu	We	Th	Mo	Tu	We	Th	Mo	Tu	We	Th	Mo	Tu	We	Th	
1998	Low Stock	Mo	Tu	We	Th	Mo	Tu	We	Th	Mo	Tu	We	Th	Mo	Tu	Mo	Tu	We	Th	
223	19 APR	0.48	2.19	19	265	20	194	193	-1	153	123	123	123	123	123	123	123	123	123	123
489	301 AMP	1.00	2.5	19	6720	40	39	39	39	540	540	540	540	540	540	540	540	540	540	540
503	68 AMR	1.80	4.4	26	500	403	403	403	403	454	454	454	454	454	454	454	454	454	454	454
373	375 ASA	0.96	2.3	19	153	153	153	153	153	31	31	31	31	31	31	31	31	31	31	31
174	13 Alaris Pr	0.40	3.0	8	1673	137	137	137	137	163	163	163	163	163	163	163	163	163	163	163
301	274 ALB Ind	0.70	1.0	19	26	95	95	95	95	104	104	104	104	104	104	104	104	104	104	104
185	127 Acapulco	0.56	1.3	10	153	153	153	153	153	161	161	161	161	161	161	161	161	161	161	161
92	57 ALB Int	0.51	1.2	8	141	94	94	94	94	104	104	104	104	104	104	104	104	104	104	104
78	8 ACM Grp	0.66	104	351	26	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64
93	81 ACM Int	0.50	106	391	81	81	81	81	81	81	81	81	81	81	81	81	81	81	81	81
383	151 ACM Int	0.52	17	7	6	20	29	29	29	29	29	29	29	29	29	29	29	29	29	29
123	61 Acme Bld	0.43	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61
334	273 Acorda	0.80	2.4	20	10	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33
121	12 Acron	0.80	63	913	14	14	14	14	14	15	15	15	15	15	15	15	15	15	15	15
183	183 Adams Exp	1.65	87	6	173	194	194	194	194	194	194	194	194	194	194	194	194	194	194	194
214	127 Adelco	0.16	5	5	502	134	134	134	134	134	134	134	134	134	134	134	134	134	134	134
204	94 Advo Corp	0.10	10	56	421	104	104	104	104	104	104	104	104	104	104	104	104	104	104	104
503	411 Adgen	1.19	25	14	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47
78	633 Admet	2.76	4.1	17	52	70	67	67	67	67	67	67	67	67	67	67	67	67	67	67
33	284 Adtech	0.40	13	12	99	205	205	205	205	205	205	205	205	205	205	205	205	205	205	205
223	173 Advo Int	0.20	13	12	23	202	202	202	202	202	202	202	202	202	202	202	202	202	202	202
31	173 Advo Ind	0.22	12	7	57	194	194	194	194	194	194	194	194	194	194	194	194	194	194	194
472	323 Advo Int	0.08	22	31	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45
404	215 Advo A	0.36	19	18	39	39	39	39	39	39	39	39	39	39	39	39	39	39	39	39
349	215 Advo A	0.40	20	12	305	416	406	406	406	406	406	406	406	406	406	406	406	406	406	406
66	373 Advo	0.56	1.3	23	6165	454	454	454	454	454	454	454	454	454	454	454	454	454	454	454
602	393 Advo B	0.60	16	6	546	546	546	546	546	546	546	546	546	546	546	546	546	546	546	546
215	173 Advo	0.10	5	42	42	193	193	193	193	193	193	193	193	193	193	193	193	193	193	193
31	173 Advo Ind	0.52	27	12	130	194	194	194	194	194	194	194	194	194	194	194	194	194	194	194
204	161 Advo Int	0.10	10	18	100	291	291	291	291	291	291	291	291	291	291	291	291	291	291	291
41	305 Advo Morgan	1.64	35	200	406	406	406	406	406	406	406	406	406	406	406	406	406	406	406	406
215	193 Advo Corp	1.03	19	11	1666	444	444	444	444	444	444	444	444	444	444	444	444	444	444	444
275	173 Advo Corp	1.04	15	14	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27
275	193 Advo Corp	1.05	14	12	37	37	37	37	37	37	37	37	37	37	37	37	37	37	37	37
275	193 Advo Corp	1.06	11	12	37	37	37	37	37	37	37	37	37	37	37	37	37	37	37	37
275	193 Advo Corp	1.07	10	12	217	459	459	459	459	459	459	459	459	459	459	459	459	459	459	459
275	193 Advo Corp	1.08	5	5	217	217	217	217	217	217	217	217	217	217	217	217	217	217	217	217
275	193 Advo Corp	1.09	4	5	217	217	217	217	217	217	217	217	217	217	217	217	217	217	217	217
275	193 Advo Corp	1.10	3	4	217	217	217	217	217	217	217	217	217	217	217	217	217	217	217	217
275	193 Advo Corp	1.11	2	3	217	217	217	217	217	217	217	217	217	217	217	217	217	217	217	217
275	193 Advo Corp	1.12	1	2	217	217	217	217	217	217	217	217	217	217	217	217	217	217	217	217
275	193 Advo Corp	1.13	0	1</td																

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NYSE PRICES

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		Vol.	IV	52w	High	Low	Close	Prev. Close	Chg.	Pctg.			
	High	Low	Stock	Wk %	E	1986	High	Low	Close	Chg.	High	Low	Stock
Continued from previous page													
29-1 13-2 SCSW	0.06	0.4	38	1268	145	145	145	145	145	-1	74	64	Titan
21 17-2 Seaboard X	0.10	0.5	12	705	20	194	193	193	193	-1	502	475	Titan
47-2 18-2 Scamps	0.52	12	25	489	454	444	444	444	444	-1	302	347	Titan
16-2 14-2 Seastar/M&F	0.22	0.1	1	143	145	145	145	145	145	-1	27	27	16
12-2 11 Seastar/M&F	0.16	1.3	2	267	127	126	126	126	126	-1	145	145	11
20-2 18 Seastar	0.70	3.7	2	7	184	184	184	184	184	-1	115	8	Titan
16 15 Seastar/4025	1.46	8.4	3	159	152	152	152	152	152	-1	90	504	Titan
67-2 42-2 Sphax	0.80	1.8	16	1673237	442	434	434	434	434	-1	17	17	11
30-2 31-2 Sphax	0.80	2.2	25	8254	334	324	324	324	324	-1	503	421	Titan
28 17-2 Sphax En			17	1772	250	242	242	242	242	-1	201	201	Titan
30-2 25 Seastar Air			24	847	345	334	334	334	334	-1	37	37	2
57-2 38 Seastar	0.92	2.0	13	10555	454	444	444	444	444	-1	50	50	Titan
22-2 15 Seastar/2000	1.24	5.5	21	108	215	214	214	214	214	-1	145	2	Titan
33 11-2 Seastar/2000	0.94	8.7	7	78	124	124	124	124	124	-1	50	50	Titan
22-2 15-2 Seastar/2000	0.22	1.4	13	2205	15	153	153	153	153	-1	52	32	Titan
44-2 21-2 Seastar/2000	0.80	14.116	17	444	444	444	444	444	444	-1	27	27	11
50 33 Seastar	0.50	1.0130	3	494	494	494	494	494	494	-1	445	302	Titan
50-2 36-2 Seastar/2000	0.48	0.8	29	971	573	563	563	563	563	-1	50	50	Titan
22-2 19-2 Seastar	0.68	3.0	15	1019	234	224	224	224	224	-1	224	224	18
8-2 4-2 Seastar/2000			10	1051	54	54	54	54	54	-1	252	211	3600
49-2 28-2 SCSSTech			7	875	36	352	352	352	352	-1	482	259	Titan
15-2 10-2 Show Ind	0.30	2.3	40	754	135	131	131	131	131	-1	78	495	Titan
12-2 10-2 Show Ind	0.28	2.5	13	18	105	104	104	104	104	-1	145	145	Titan
50-2 7-2 Show Ind	1.26	3.7	17	318	88	873	873	873	873	-1	475	305	Titan
47 30 Show Ind	0.70	1.5	19	920	86	85	85	85	85	-1	74	51	Titan
13-2 7-2 Show Ind			11	235	105	104	104	104	104	-1	74	51	Titan
35-2 21 Show Ind	0.10	0.4	33	592	274	264	264	264	264	-1	302	202	Titan
25-2 22-2 Show Ind	1.18	4.7	12	441	254	244	244	244	244	-1	104	56	Titan
5 4-2 Show Ind			1	4	64	64	64	64	64	-1	104	56	Titan
27-2 21-2 Show Ind	0.80	3.8	16	1653	224	215	215	215	215	-1	224	152	Titan
30-2 21-2 Show Ind			18	1882	244	24	24	24	24	-1	48	305	Titan
8-2 7-2 Show Ind	0.88	10.2	34	50	85	85	85	85	85	-1	145	145	Titan
4-2 6-2 Show Ind	0.15	3.1	883	34	34	34	34	34	34	-1	74	51	Titan
26-2 10-2 Show Ind	0.60	2.3	13	245	23	23	23	23	23	-1	74	51	Titan
11-2 5-2 Show Ind	0.08	0.7	12	72	72	72	72	72	72	-1	104	56	Titan
25-2 10-2 Show Ind			29	4763	105	324	324	324	324	-1	502	325	Titan
56-2 40-2 Show Ind	1.23	2.2	27	6973	55	55	55	55	55	-1	502	325	Titan
31 21-2 Show Ind	0.60	2.1	11	206	24	24	24	24	24	-1	495	344	Titan
22-2 10-2 Show Ind	0.52	2.7	13	61	194	184	184	184	184	-1	302	202	Titan
49-2 42-2 Show Ind	1.20	2.6	16	466	470	464	464	464	464	-1	495	41	Titan
50-2 32-2 Show Ind			17	5008	37	36	36	36	36	-1	50	37	Titan
24-2 31-2 Show Ind	1.08	24	19	624	445	444	444	444	444	-1	27	11	Titan
29-2 24-2 Show Ind	0.88	2.4	16	355	274	274	274	274	274	-1	302	202	Titan
56-2 57-2 Show Ind	0.40	0.8	51	525	645	644	644	644	644	-1	224	224	Titan
32-2 22-2 Show Ind	0.32	2.2	14	401	145	145	145	145	145	-1	495	32	Titan
41-2 33-2 Show Ind	2.68	7.2	2	27	40	40	40	40	40	-1	474	22	Titan
24-2 20-2 Show Ind	1.44	8.5	12	83	22	21	21	21	21	-1	112	112	Titan
22-2 18-2 Show Ind	0.49	1.9	8	227	11	21	21	21	21	-1	145	122	Titan
31-2 25-2 Show Ind	1.22	5.6	13	82	22	21	21	21	21	-1	474	22	Titan
31-2 25-2 Show Ind	1.08	3.7	11	181	231	230	230	230	230	-1	754	625	Titan
25-2 21-2 Show Ind	0.26	5.6	14	582	232	232	232	232	232	-1	112	64	Titan
45-2 37-2 SNETel	1.75	4.5	15	449	413	413	413	413	413	-1	145	105	Titan
33-2 22-2 SWAR	0.04	0.2	19	275	272	272	272	272	272	-1	145	105	Titan
16-2 15-2 SWAR	0.82	5.2	26	188	156	156	156	156	156	-1	502	505	Titan
10-2 10-2 SWAR	0.94	1.7	29	84	145	145	145	145	145	-1	502	505	Titan
24-2 22-2 SWAR	1.22	7.0	11	811	313	313	313	313	313	-1	302	27	Titan
5-2 8-2 SWAR	0.48	4.8	8	80	55	55	55	55	55	-1	502	45	Titan
4-2 4-2 SWAR	0.04	5	1	51	45	45	45	45	45	-1	502	45	Titan
14-2 8-2 Sphax	0.04	0.4	5	23	104	104	104	104	104	-1	502	45	Titan
50-2 33-2 Sphax	1.28	2.8	11	472	46	46	46	46	46	-1	495	344	Titan
49-2 34-2 Sphax	1.00	2.5	13	4865	405	395	395	395	395	-1	302	202	Titan
15-2 15-2 Sphax	0.40	1.7	67	975	234	234	234	234	234	-1	302	202	Titan
43-2 30-2 Sphax	0.70	2.0	10	1985	382	382	382	382	382	-1	302	202	Titan
16-2 12-2 Sphax	0.82	1.8	13	14	17	17	17	17	17	-1	302	202	Titan
7-2 7-2 Sphax	0.12	1.7	7	126	87	87	87	87	87	-1	50	50	Titan
16-2 12-2 Sphax	0.12	0.8	11	3	102	102	102	102	102	-1	302	202	Titan
32-2 21-2 Stop Shop	0.62	2.5	12	82	227	112	112	112	112	-1	302	202	Titan
44-2 22-2 Stop Shop			17	5571	394	377	377	377	377	-1	302	202	Titan
34-2 25-2 Stop Shop	0.30	30	280	274	274	274	274	274	274	-1	302	202	Titan
10-2 6-2 Stop Shop	0.05	2.8	29	886	75	75	75	75	75	-1	302	202	Titan
44-2 27-2 Stop Shop	1.00	3.2	23	173	402	402	402	402	402	-1	302	202	Titan
40-2 34-2 Stop Shop	1.28	3.8	17	1542	36	36	36	36	36	-1	302	202	Titan
44-2 35-2 Stop Shop	0.27	5.7	14	81	81	81	81	81	81	-1	302	202	Titan
61-2 44-2 Stop Shop	0.80	1.0	17	1558	80	80	80	80	80	-1	302	202	Titan
34-2 34-2 Stop Shop	0.08	1.8	16	561	374	374	374	374	374	-1	302	202	Titan
11-2 10-2 Stop Shop	1.10	10.3	9	220	107	106	106	106	106	-1	302	202	Titan
30-2 22-2 Stop Shop	0.80	2.0	14	1125	36	35	35	35	35	-1	302	202	Titan
13-2 21-2 Stop Shop	0.04	4.0	11	200	104	104	104	104	104	-1	302	202	Titan
33-2 30-2 Stop Shop	1.04	2.8	10	552	258	258	258	258	258	-1	302	202	Titan
22-2 20-2 Stop Shop	1.00	3.3	12	781	304	303	303	303	303	-1	302	202	Titan
48 21-2 Stop Shop	0.39	1.8	16	167	214	214	214	214	214	-1	302	202	Titan
50-2 21-2 Stop Shop	0.20	2.8	13	21	45	45	45	45	45	-1	302	202	Titan
54 21-2 Stop Shop	0.20	2.8	13	87	75	75	75	75	75	-1	302	202	Titan
56-2 21-2 Stop Shop	0.44	1.8	21	365	234	234	234	234	234	-1	302	202	Titan
54 21-2 Stop Shop	0.02	1.7	20	5571	204	203	203	203	203	-1	302	202	Titan

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	PY	Stk	Div	E	100s	High	Low	Last	Chng		PY	Stk	Div	E	100s	High	Low	Last	Chng		PY	Stk	Div	E	100s	High	Low	Last	Chng						
Stock	PY	Stk	Div	E	100s	High	Low	Last	Chng	Stock	PY	Stk	Div	E	100s	High	Low	Last	Chng	Stock	PY	Stk	Div	E	100s	High	Low	Last	Chng	Stock					
ACC Corp	012	63	672	48 ¹	44 ¹	45	45	+3	-	Dsp Gty	140	11	131	46	35 ¹	45 ¹	35 ¹	-3	-	Lakota	072110	65	151 ²	151 ²	151 ²	-1	Pyramid	12	887	191 ¹	171 ¹	171 ¹	-1	Pyramid	
Accelent	E	101220	51 ¹	91 ¹	93 ¹	-1	-	-	-	Devcon	020	21	51 ¹	85 ¹	85 ¹	-1	-	Land Form	018	2	6	10 ¹	10 ¹	10 ¹	-1	Pythys	1	254	31 ¹	31 ¹	31 ¹	-1	Pythys		
Academy Cp	511404	336 ²	35 ¹	35 ¹	+2	-	-	-	-	DH Tech	18	42	20 ¹	23 ¹	24 ¹	-1	-	LanTech	050403	33 ¹	25 ¹	25 ¹	25 ¹	-1	Pyramid	010	9	75	18	171 ²	171 ²	Pyramid			
Adaptech	2512055	48 ¹	48 ¹	47 ¹	+1	-	-	-	-	Dig Int'l	114825	18	163 ¹	173 ¹	-	-	-	Dig Micro	38	78	157 ¹	153 ¹	153 ¹	-1	Pyramid	048	10	2045	261 ²	259 ²	261 ²	+1	Pyramid		
ADC Tel	362853	44 ¹	42 ¹	42 ¹	-1	-	-	-	-	Dig Sound	5	588	2	17 ¹	17 ¹	-	-	-	Dig Syst	351423	14 ¹	133 ¹	133 ¹	133 ¹	-1	Pyramid	048	11	83	137 ¹	161 ²	161 ²	+1	Pyramid	
Addington	19	711	22 ¹	20 ¹	22	+1	-	-	-	Dixie Cp	20	705	33	31 ¹	32 ¹	-1	-	-	DiamondGph	923263	29 ¹	28 ¹	28 ¹	28 ¹	-1	Pyramid	013	871	184 ¹	171 ¹	171 ¹	-1	Pyramid		
AdisADR	016	27	25 ¹	31 ¹	31 ¹	-1	-	-	-	Dixie Ym	020	1	223	5	45 ¹	45 ¹	-1	-	-	Digitek	91517	55 ¹	55 ¹	55 ¹	55 ¹	-1	Pyramid	005	1	415	13 ¹	15 ¹	15 ¹	-1	Pyramid
Adobe Sys	020	33	7253	35 ¹	34 ¹	-1	-	-	-	DIMA Plant	225	1	340	21	12	12	-	-	Digitek	114825	23 ¹	22 ¹	23 ¹	23 ¹	-1	Pyramid	12013470	20	25 ¹	25 ¹	25 ¹	+1	Pyramid		
Adv Logic	7	77	7 ¹	7	7	-1	-	-	-	Doller En	020	27	31	29 ¹	28 ¹	28 ¹	-1	-	Dinner Rx	06818	15	1897	30 ¹	37 ¹	37 ¹	+1	Pyramid	010	9	75	18	171 ²	171 ²	Pyramid	
Adv Polym	124884	8 ¹	71 ¹	74 ¹	-1	-	-	-	-	Dorch Rx	068	15	12	12	12	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	010	9	75	18	171 ²	171 ²	Pyramid		
AdvTechLab	32	672	36 ²	35	36 ¹	+1	-	-	-	Dress Eng	17	173	22 ¹	22 ¹	22 ¹	-1	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	024	21	326	33 ¹	32 ¹	32 ¹	-1	Pyramid		
Advanta A	036	14	3355	49 ¹	47 ¹	47 ¹	-1	-	-	DressSoft	13	121	103 ¹	102 ¹	103 ¹	-1	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	030	1521	13 ¹	13 ¹	13 ¹	-1	Pyramid			
AgereSis	010	45	16	16	16 ¹	16 ¹	-1	-	Drey GD	028	2121	335	31 ¹	30 ¹	30 ¹	-1	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	095	294351	72	21	71 ¹	-1	Pyramid			
AirBear x	024	16	1047	27 ¹	27	27 ¹	-1	-	-	Drey Eng	008	25	323	41 ¹	41 ¹	41 ¹	-1	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	012	16	8	81	55 ¹	55 ¹	+1	Pyramid	
Alexa ADR	175	10	100	58 ¹	58 ¹	58 ¹	-1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	062	12	1571	17 ¹	17 ¹	-1	Pyramid	
Alibi	088	20	248	24 ¹	24 ¹	24 ¹	-1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	34 ¹	32 ¹	32 ¹	-1	Pyramid
Allen Org	052	14	3	377	32 ¹	37 ¹	-1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	18 ¹	17 ¹	18 ¹	-1	Pyramid
Allen Ph	15	936	16 ¹	16 ¹	16 ¹	-1	-	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	18 ¹	17 ¹	18 ¹	-1	Pyramid
AltaCpl	140	15	84	81 ¹	72 ¹	72 ¹	-1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	18 ¹	17 ¹	18 ¹	-1	Pyramid
AltCap	108	12	137	14 ¹	13	13	+1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	18 ¹	17 ¹	18 ¹	-1	Pyramid
Altisys C	032	21	2100	37 ¹	37 ¹	37 ¹	-1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	18 ¹	17 ¹	18 ¹	-1	Pyramid
Altisys Gold	005	26	1431	4	323	323	-1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	18 ¹	17 ¹	18 ¹	-1	Pyramid
Altera Co	18	6554	373 ²	35 ¹	35 ¹	-1	-	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	18 ¹	17 ¹	18 ¹	-1	Pyramid
Am Banker	030	11	311	42 ¹	41 ¹	41 ¹	-1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	18 ¹	17 ¹	18 ¹	-1	Pyramid
AmCityWay	016	27	230	10 ²	10	10 ²	-1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	18 ¹	17 ¹	18 ¹	-1	Pyramid
Am Manag	032	10	10	307	7 ¹	7 ¹	-1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	18 ¹	17 ¹	18 ¹	-1	Pyramid
Am Softw	032	10	677	45 ¹	41 ¹	41 ¹	-1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	18 ¹	17 ¹	18 ¹	-1	Pyramid
Am Trwy	14	191	243	23 ¹	23 ¹	23 ¹	-1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	18 ¹	17 ¹	18 ¹	-1	Pyramid
Amgen Inc	252033	1	1	1	1	1	-1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13	13	-1	Pyramid	028	15	5321	18 ¹	17 ¹	18 ¹	-1	Pyramid
Analyst	008	21	31	30 ¹	30 ¹	30 ¹	-1	-	-	Dru Eng	024	12	180	35	34 ¹	34 ¹	-1	-	-	Dinner Rx	06818	12	13	13</											

AMERICA

US stocks hold steady at midsession

Wall Street

The US stock market surprised many on Wall Street by holding steady in the wake of Friday's sharp sell-off that sent the Dow Jones Industrial Average down by nearly 115 points during the half-day session, writes Lisa Bransten in New York.

At 1 pm the Dow was up 4.03 at 5,582.20, while the Standard & Poor's 500 lost 0.28 at 857.16 and the American Stock Exchange composite shed 2.33 to 57,200. Volume on the New York Stock Exchange came to 19m shares.

Shares tumbled along with bonds on Friday after surprisingly strong data on June employment and wage levels sparked fears that the Federal Reserve might raise interest rates aggressively in the near term. Many analysis believed that the decline would continue yesterday because many investors were out of their offices on Friday because of the Independence Day holiday.

Mr Eric Miller, chief investment officer at Donaldson, Lufkin & Jenrette, attributed yesterday's stability in the equity market to the steady bond market, where the benchmark 30-year Treasury edged higher in early afternoon trading.

"If the bond market doesn't have a correction, the stock market won't," he said. "Anything that threatens a new high in [long term interest] rates and I think the stock market is going to suffer some."

Technology shares were stronger. The Nasdaq composite, which is weighted toward that sector, put on 2.63 at 1,160.94 and the Pacific Stock

Exchange technology index gained 0.4 per cent.

IBM was among the strongest performers of the 30 companies in the Dow with a gain of \$14 at \$394. Motorola jumped \$24 to \$884 as investors hoped that the computer chip and cellular telephone company would report strong earnings later this week.

Meanwhile, Tandy, the consumer electronics retailer, slid \$35 or 9 per cent to \$316 after warning that second-quarter earnings would be below those from the comparable period last year.

Honeywell dipped \$3 to \$511 on news that an appeal court had upheld a jury finding that the company had infringed on a patent held by Litton Industries. The latter slipped \$3 to \$423 on the news.

Canada

Toronto was weak in midsession trade after the inflation worries that shook Canadian and US markets on Friday. The TSE 300 composite index was 14.39 down by noon at 5,048.40 in volume of 31.7m shares.

Gold rose on stronger bullion prices in early trade, but weakened as prices slipped.

The Calgary-based Petro-Canada was actively traded, picking up 4 cents to C\$2.55.

Banking stocks continued their slide from Friday. Bank of Montreal receded 30 cents to C\$33.85.

Gold stocks were mixed. Arequipa Resources recovered, rising 55 cents to C\$19.15, after falling on Friday on disappointing drilling results from its Pilaria property in Peru. Placer Dome slipped 45 cents to C\$34 in heavy trading.

Mexico down 1.5%

There were variations in the performances of the region's equity markets, with MEXICO CITY up 1.5 per cent by midday. The IPC index was down 45.68 at 3,060.36 as fears returned of a possible rise in domestic interest rates during the course of the week.

Televisa, the media group,

ties, losing 4 per cent after breaking through a technical support level on Friday. The fall was attributed mainly to interest rate worries.

SAO PAULO was moving in a different direction as the Bovespa index picked up 58.57 to 63,451 by early afternoon. On Friday the market had dropped 2.3 per cent.

The Topix index of all first section stocks fell 21.06, or 1.3 per cent, to 1,669.44. The Nikkei 300 lost 3.96 to 309.66.

Declines led advances by 973 to 114, with 122 issues unchanged. In London the ISE/Nikkei 50 index gained 1.29 at 1,498.22.

The dollar rose above the Y111 level for the first time since January 1994, raising concerns of import inflation. The yen's previous strength had boosted the amount of imports into Japan, and some investors were worried about the negative impact on domestic prices.

Interest rate fears and arbitrage linked selling hit banks. Industrial Bank of Japan lost

1.06 at 1,134.50, while Nippon

Bank fell 1.00 at 1,134.50.

AUSTRIA down 1.51% to 1,124.12

Belgium down 0.83% to 1,192.12

Denmark down 0.75% to 1,192.23

Finland down 0.98% to 1,150.50

France down 0.88% to 1,124.44

Germany down 0.30% to 1,135.75

Ireland down 1.22% to 1,123.20

Italy down 0.65% to 1,121.30

Netherlands down 0.41% to 1,124.44

Norway down 1.63% to 1,124.17

Spain down 1.67% to 1,120.50

Sweden down 1.21% to 1,124.50

Switzerland down 0.11% to 1,122.50

UK down 0.91% to 1,120.50

EUROPE down 0.19% to 1,120.50

Australia down 0.82% to 1,122.40

Hong Kong down 0.69% to 1,123.00

Japan down 1.25% to 1,124.84

Malaysia down 0.11% to 1,124.00

New Zealand down 1.72% to 1,124.50

Singapore down 1.07% to 1,124.00

Canada down 0.41% to 1,124.00

USA down 1.92% to 1,124.70

Mexico down 2.80% to 1,124.10

South Africa down 0.38% to 1,122.00

WORLD INDEX down 1.03% to 1,120.50

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EUROPE

Hesitant bourses make up some of lost ground

The Continent spent an uncomfortable morning waiting for the opening of Wall Street, before recovering some lost ground later in the day as the US stock market remained steady.

PARIS was weak in the morning as worries persisted about another decline in the US, but during the afternoon there was a different story which was sufficient to lift the CAC-40. The index, after a session low of 2,065.04, ended at 2,078.05, down 12.73 on the day. Turnover was FFr1.2bn.

Docks de France remained in the news, although turnover was on the low side, as rumours developed that Teal, of the US, might be about to merge with it. The French group finished FFr14.1m at FFr1,222.

Last week Auchan, a private company, launched a hostile bid valued at FFr1,250 a share.

Financials were mixed, with a bid recommendation from Deutsche Morgan Grenfell, which lifted its rating from neutral to overweight. The broker forecast that the machinery manufacturer would see earnings per share of Dm26.20 in 1998, as against Dm22.50 in 1996 and Dm21.75 in 1997.

However, Credit Local went against the trend with a rise of FFr1.50 to FFr23.50 after a broker's positive recommendation of the group.

Both Bouygues and Gérôme

des Eaux slipped after France Telecom announced that it was cutting prices by nearly 10 per cent. Bouygues, which owns Bouygues Telecom, lost FFr5 to FFr5.64, and Gérôme FFr5 to FFr5.64.

FRANKFURT took its lead from the US in fairly muted trading conditions. The Dax index dipped 32.45 to 2,551.04, but after Wall Street's opening the Ibov moved to 2,561.51. Turnover was DM5.5bn.

Investors were also slightly wary ahead of today's German June unemployment data, while prospects for a cut in domestic interest rates by the Bundesbank on Thursday were dashed after the president of the bank said there were no economic grounds for a move.

Manesmann gained DM5.20

to DM520, then to DM530 in the lulls, with a buy recommendation from Deutsche Morgan Grenfell, which lifted its rating from neutral to overweight. The broker forecast that the machinery manufacturer would see earnings per share of Dm26.20 in 1998, as against Dm22.50 in 1996 and Dm21.75 in 1997.

HOOGOVENS, the steel and

mining company, advanced 20 cents to DM1.25 in spite of a broker's downgrade last week.

MILAN trimmed early losses, taking its lead from Wall Street and with little in the way of domestic news to drive

the prices. The Comit index fell 6.15 to 554.26, while the real-time Mibtel index was 65 weaker at 10,446, after a day's low of 10,400. Turnover was estimated at a thin DM40m.

IMI fell DM9 to 1,120.09 after the treasury said it had concluded the sale of the last tranche of the investment bank at DM1,400 a share.

But it was the financial sector that bore the brunt of the lulls, with a buy recommendation from Deutsche Morgan Grenfell, which lifted its rating from neutral to overweight. The broker forecast that the machinery manufacturer would see earnings per share of Dm26.20 in 1998, as against Dm22.50 in 1996 and Dm21.75 in 1997.

Thyssen rose DM3.50 to DM39.50 as speculation continued that it would succeed in buying a stake in the German railway's telecoms subsidiary.

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ASIA PACIFIC

Nikkei dips below 22,000 as Hong Kong drops 2.6%

The rise in the dollar against the yen led to fears of import inflation and a shift in monetary policy by the Bank of Japan. The Nikkei average closed below the \$2,000 level for the first time since June 11, writes Enrico Terzoni in Tokyo.

The week ended with a rise of 1.4 per cent to 21,901.94, while the Nikkei 225 index lost 74.48 to 19,756.50.

Gold stocks were mixed. Arquima Resources recovered, rising 55 cents to C\$19.15, after falling on Friday on disappointing drilling results from its Pilaria property in Peru. Placer Dome slipped 45 cents to C\$34 in heavy trading.

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Thyssen rose DM3.5

JULY 9 1996

FINANCIAL TIMES TUESDAY JULY 9 1996 *

1996 WORLD RALLY CHAMPIONSHIP



Winning's not our top priority...

drops 2.6%



... really.

Winning is great, but it's not to be mistaken for the real objective of our '96 WRC efforts: the testing and development of new automotive systems and technologies in the harshest driving conditions on earth. And once we've got a winning technology, it's immediately adapted to our Mitsubishi production cars, making *you* the biggest winner of all.

Oh, and by the way, we did take the overall victory in Argentina.



CREATING TOGETHER

NEWS: UK

Disagreement remains over who is responsible if paperless settlement fails

Share system still not authorised

By John Gapper,
Banking Editor

Final agreements to allow the Crest paperless share settlement system to start next week were still in negotiation yesterday following disagreements over who will bear liability if it fails to work.

CrestCo, the company that will run Crest, said that it was still signing agreements with the companies that will run its electronic network. It has yet to gain authorisation from the Securities and Investments Board, the main City of London regulator as a result.

Some of the 24 registrars that must electronically adjust ownership of company shares within two hours of a trade were pressing for these companies to bear the costs of fines if the network breaks down and stops them meeting contracts.

"We think it is unfair if we suffer a penalty for something that is not our fault," said Mr Tom Morrison, the chief registrar of the Royal Bank of Scotland. RBS is one of the largest registrars intending to take part in Crest.

The executive committee of SIB is expected to meet later in the week to authorise Crest to operate as an electronic share settlement system and an electronic clearing house. Crest is due to begin a phased start to operations next Monday.

CrestCo has already conceded the principle of placing a cap on fines that can be levied on registrars for failing to meet service standards. However, registrars have also pressed to escape fines for failures due to network failures.

Lloyd's Bank, another large registrar, said it expected to sign a contract with Crest imminently. It said it thought the main areas of contention between it and the network providers - Swift and Syntex - had now been resolved.

Crest is to replace the Talsman share settlement system owned and operated by the London Stock Exchange. Crest is owned by about 60 large institutions, and has been developed under Bank of England, UK's central bank, management.

It would be awkward if Crest were unable to start as on time since it has a complex timetable to meet if it is to take over from Talsman entirely by next spring. However, it is widely expected to meet the deadline despite these issues.

SIB said that it was not unusual for a project of Crest's complexity to be authorised before it was due to start operating.

Mr Morrison said that RBS was still waiting to hear if the network providers would bear the cost of fines on registrars when the network failed. The alternative was that CrestCo might not levy fines on registrars in such cases.

CrestCo said that it did not believe there were substantial issues still to resolve, and the disagreement had simply been part of normal business negotiations.

Patten promises European 'crusade'

By Lionel Barber
in Brussels

UK NEWS DIGEST

BA pilots agree to negotiations

Talks aimed at averting next week's planned strike by British Airways pilots are due to start today with both sides expressing hopes of reaching agreement. The breakthrough followed an initiative yesterday by Mr Chris Darke, the general secretary of Salpa, the pilots' trade union.

In a letter to Mr Robert Ayling, BA's chief executive, he called for a resumption of negotiations, saying it was in their mutual interest to try to find a solution to a dispute that could inflict serious financial damage on the company. BA's 3,500 flight crew staff are to take indefinite industrial action from July 15.

BA said last night that this was a positive development. "We have been trying to get the union to the negotiating table for some days," it said. "We will listen carefully to whatever Salpa has to say. We want to identify what the core of the problem is and see whether we can find reasonable ways of addressing it."

Robert Taylor, London

■ LONDON UNDERGROUND

Employers say strike crumbling

Nearly 40 per cent of London Underground services ran normally yesterday in the first sign that the drivers' strike may be crumbling, London Transport said. The Aslef train drivers' union executive will decide today whether to attend peace talks with the conciliation service Acas to try to resolve the dispute. The drivers' next one-day strike is due next Tuesday. Tomorrow the result of a strike ballot of Underground drivers belonging to the larger RMT transport union is due to be announced.

Robert Taylor, London

■ NORTHERN IRELAND

Parties threaten to quit talks

Unionist politicians last night threatened to withdraw from the all-party Northern Ireland peace talks because of the stand-off between fiercely Protestant Orange Order supporters and the Royal Ulster Constabulary in Portadown, Northern Ireland. As the province braced itself for further violence, Unionist sources said that Mr George Mitchell, the former US senator chairing the talks, would be told of the parties' intentions today.

It was understood that the Ulster Unionist party, Mr Ian Paisley's Democratic Unionist party and the United Kingdom Unionist party were intending to boycott the talks. For the second time in 24 hours, the police fired plastic bullets to disperse loyalist demonstrators at the same stand-off at the Drumcree church outside Portadown. As evening approached on the second day of the clash, a crowd of some 400 Orange men was bolstered by the arrival of loyalist supporters from outside the area.

John Murray Brown, Belfast

■ ECONOMICS

Manufacturing output stagnates

The enfeebled state of Britain's manufacturing sector was highlighted yesterday by official figures showing that factory production stagnated in May while industrial prices and raw material costs both fell last month. The figures - which came on the eve of the summer economic forecast by Mr Kenneth Clarke, the chancellor of the exchequer - underline the dichotomy in Britain's "two-speed" economy: growth in manufacturing has ground to a halt, while output in the service sector is still expanding strongly.

The figures make it more likely that Mr Clarke will try to squeeze in another cut in UK interest rates next month. But some officials at the Treasury and the Bank of England, the UK central bank, fear this would be ill-advised as they expect manufacturing to rebound strongly later this year.

The Office for National Statistics said that factory output was unchanged in May, but the statisticians revised up their original estimate of output in April by a fifth as a percentage point. The underlying trend in factory output has now been flat for six months.

Robert Chote and Gillian Tett, London

■ BROADCASTING

BBC to announce new team

The BBC is expected to announce this week the team in the BBC News Directorate, which will be responsible for making World Service programmes, in an attempt to head off criticism of its management restructuring. On Friday Mr Sam Younger, managing director of the World Service, announced to staff the three people who will be in charge of World Service commissioning. They are Mr Bob Jobbins, who will be in charge of news, Ms Penny Tuerk, non-news programming, and Mr Chris Gill, resources.

Restructuring of the BBC into functional units will deprive the World Service, the corporation's English language overseas service, of its programme-making capacity.

A World Service commissioning team will buy in programmes under contract from BBC News and from BBC Production, the new unit that will be responsible for making virtually all BBC programmes.

Raymond Snoddy, London

■ TECHNOLOGY

'Virtual' institute planned

Heriot-Watt University, in Edinburgh, Scotland, is to be the centre of a new National Microelectronics Institute funded by nine UK-based semiconductor manufacturers. It was announced yesterday. Heriot-Watt will provide the hub for a "virtual" institute, linking existing university and company facilities, which will focus on ensuring the availability of skilled technicians and engineers. The institute is supported by Motorola, NEC, National Semiconductor, Seagate, Siemens, Fujitsu, Newport Wafer Fab, Philips and GEC-Plessey.

David Wighton, London

Banks to pursue Iraq over £500m of defaulted loans

By Jimmy Burns in London

A group of banks backed by the UK's Export Credits Guarantee Department have notified the High Court in London that they intend to pursue claims for about £500m (\$778m) in loans which Iraq has defaulted on.

Under the statute of limitations - a UK law covering the recovery of debt - the banks were facing the expiry of a six-year period in which they had to serve notice of their intention to take legal action to recover the loans. Transactions between Iraq and western banks were frozen under United Nations sanctions following President Saddam Hussein's 1990 Kuwait invasion.

Most of the loans, backed by the ECGD, fell due in 1992 and 1994, and include those funding defence-related exports.

The ECGD said: "We had to pre-empt any legal action by Iraq to declare the debt invalid after six years."

The banks include Midland,

Morgan Grenfell, Barclays, National Westminster, Bank of

Kuwait, Arab Banking Corporation, and Banque Paribas.

Banks in the UK have approximately \$1bn in Iraqi assets frozen by the Bank of England during the Gulf War.

Banks would need to take legal action to have the funds sequestered and used to secure repayment. The UK government is unlikely to give the go-ahead for any move on the blocked Iraqi funds in the short term.

The Iraqi government departments named in the High Court writ issued by the banks include the Ministry of Industry and Military Manufacturing, and the Ministry of Water and Sewerage.

The move comes four months after the publication of the Scott arms-for-Iraq report which confirmed the extent to which UK's commercial ties with Iraq, including military ties, were undermined with trade credits approved through the ECGD.

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The move comes four months after the publication of the Scott arms-for-Iraq report which confirmed the extent to which UK's commercial ties with Iraq, including military ties, were undermined with trade credits approved through the ECGD.

The banks include Midland,

Morgan Grenfell, Barclays, National Westminster, Bank of

Kuwait, Arab Banking Corporation, and Banque Paribas.

Banks in the UK have approximately \$1bn in Iraqi assets frozen by the Bank of England during the Gulf War.

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BEHIND THE NET
Order could soon be brought to the chaos of the Internet by an obscure computer protocol developed by librarians to share electronic library records. A product of organic growth, the Internet has no official central index. This, combined with the speed and manner in which new data are constantly being added, makes finding relevant information a Herculean task.

Called Z39.50, the protocol could have important implications for anyone who scores the Internet for information. At present, users normally have to search each database separately using different commands, but the protocol would allow unified searches across multiple library catalogues and commercial databases, as well as millions of Web pages.

Z39.50 is a "client/server application protocol" that allows one computer system (the client) to search and retrieve information from another computer system (the server). It grew out of a 1980 project to develop a way of enabling electronic bibliographic records held at different library sites to be mutually accessible over networks. Members of the project included the Library of Congress and the US Research Libraries Group.

Effectively, Z39.50 is an Esperanto language that allows non-compatible databases to communicate. So long as both sides can "speak" Z39.50, the client can retrieve information from structured databases of different types in a consistent way. It allows simultaneous searches of multiple databases, too.

In recognition of its wider potential, Z39.50 has been adopted as a US national standard. It has also been extended to allow a wider range of data types to be recognised, including files containing multimedia components such as images and sound. Z39.50, its advocates argue, is an ideal tool to tame the Internet.

Previous attempts have focused on automated search engines. These roam the network, bringing back to a central server new or updated information that users can search by inputting words or phrases. This approach is adopted by Lycos, Infoseek and Digital Equipment's AltaVista, the most ambitious such project so far, which claims to have indexed 15bn words from more than 30m Web pages.

Search engines are designed to index every word in every document, leading to a plethora of data and imprecision. "Overload and irrelevance is inevitable where you have no bibliographic control," says Robin Murray, technical director at Freewell Downing, a Sheffield-based library automation company. "Con-

Surfing the index

A computer protocol developed by librarians could let users search databases, writes Richard Poynder

MURIEL'S STRENGTH IS THAT SHE BRINGS A TRAINED LIBRARIAN'S SENSE OF ORDER TO THE CHAOS OF THE INTERNET



sequently there is much discussion now about introducing bibliographic tags to Web pages." This is familiar territory for librarians wedded on classification codes such as the Dewey Decimal System, and Z39.50 was developed precisely to handle such bibliographic tags.

"If Z39.50 were implemented on search engines like AltaVista it would be possible to search on, say, author name or subject, rather than full-text searches within the body of a document," says Ray Denenberg, a senior network development officer at the Library of Congress.

There are obstacles. It would be necessary to get widespread agreement to adopt Z39.50 as a network standard. It would also require all Web pages to be indexed with bibliographic tags. "You could argue

this is beginning to happen in an ad hoc way," comments Denenberg. "But if everybody ends up doing it their own way you will have chaos. There has to be a standard."

At a recent workshop meeting of W3C, the industry consortium dedicated to developing common standards for the evolution of the Web, a number of people expressed unhappiness with Z39.50.

"It was felt it was too large and complex for the Web. Part of the problem is that it is heavily focused towards traditional paper-type content," says Ben Horowitz, a product manager at Netscape, the leading supplier of browser software.

It was proposed, therefore, that advocates of Z39.50 should develop a simpler version of the protocol, which is already being dubbed "Z39.50 lite".

Z39.50 lite.

Whatever route the wider Internet community takes, libraries are increasingly using Z39.50 to share data over the Internet. The Irish Library Council's Iris service, for instance, enables users to search the catalogues of six libraries, including Trinity College, Dublin. They can also go through UnCover, a commercial database containing bibliographic details of more than 7m articles from 17,000 English language periodicals.

Commercial database providers are also adopting Z39.50. SilverPlatter Information distributes more than 230 professional databases, mainly in the medical and scientific area. Last year it built a Web gateway to offer Internet access to its databases.

In spite of developing its own proprietary data-exchange protocol, DXP, the company recently adopted Z39.50. "Our goal is to build a worldwide library," says Gillian Reid-Holden, SilverPlatter's general manager. "For that you need interoperability."

SilverPlatter's "worldwide library" envisages a future in which users will be able to conduct simultaneous and seamless Internet searches, using their preferred interface, across self-selected clusters of databases, regardless of who the various content providers are or the physical location of the databases. Such a vision raises questions about security and billing, suggesting that initially the protocol will be confined to the corporate intranet.

Murray says: "Large enterprises tend to have tens or hundreds of internal databases. They probably also have access to external commercial ones. If all these databases were Z39.50-compatible, then rather than searching each database one by one, the user would be able to issue a single query and interrogate all those available to the enterprise in one go."

Francesca Green, senior analyst at the European Bank for Reconstruction and Development, welcomes this scenario. With access to four external online services and seven locally networked CD-Rom databases, she has to connect separately to each database and run a new search for each one using different commands. "To be able to search them all at once would be wonderful," she says.

The debate about Z39.50 is a timely reminder for the Internet community that not everything has to be built from scratch.

"Librarians have been dealing with computerised information for almost 30 years," says Neil Smith, head of network services at the British Library. "There are lots of ways in which the skills acquired by librarians could benefit the development of the Internet."

Scientists awaiting a phone call from ET say it is just a question of 'when' not 'if', explains Bruce Dorminey

Is there anybody out there?

As America watched hostile extraterrestrials wreak havoc in the new film *Independence Day* last week, an interdisciplinary colloquium of scientists converged on the Italian island of Capri to discuss their real-life search for alien intelligence.

For most of the 200 participants (including three Nobel Prize winners) at the week-long 5th International Conference on Bioastronomy, the question is not whether such extraterrestrial intelligence exists, but when, where and by what means it will be discovered.

The issue has heated up since the recent announcements of Jupiter-like gas-giants planets circling relatively nearby stars. San Francisco State University's Geoff Marcy and Paul Butler reported yet another new planet, about 60 per cent of Jupiter's size and in orbit around Upsilon Andromedae some 40 light years away.

Of six million extra-solar planets, none is like Earth. Earth-like planets could still exist in these newly discovered planetary systems. It is just that current technology is unable to detect them. No matter, extra-solar planets bolster the argument for extraterrestrial life. Yet after surveying four of the six new systems, there are no signs of a radio signal.

Searching for intelligent narrow-band radio beacons from beyond the solar system has been a continuing process since 1959 when Frank Drake first directed West Virginia's Greenbank radio telescope towards Tau Ceti, a sun-like star 11 light years away. But MIT's Phil Morrison came upon the notion of looking for intelligent signals in frequencies ranging from 1,420 to 1,720 MHz (about the wavelength of a microwave oven). These frequencies encompass natural emissions of hydrogen and hydroxyl, both common in the universe.

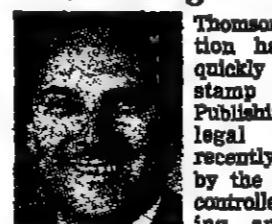
In the last 25 years Seti (Search for Extra Terrestrial Intelligence) has been primarily conducted by four groups in the US: the California-based Project Phoenix, Harvard's Beta Project, Berkeley's SERENDIP IV and Ohio State University's Big Ear search. Arguably the most famous signal seen as a real message was 1977's Wow! detection at Ohio State University, so-named for the exclamation scrawled by an excited staffer on the computer printout. "We went back 100 or more times in subsequent days and never found a thing," says Bob Dixon, the project director. "But we know it came from at least as far away as the moon and did have what communication engineers would have called sidebands which are what carries information in an AM [medium wave] broadcast signal."

While searchers can now process 250m channels simultaneously, present search strategies and protocols still suffer from lag time. Most Seti searches assume civilisations will be constantly communicating in a directed signal beam, which precludes the possibility of a sweeping or intermittent beacon.

It is a question of being in the right place at the right time, while avoiding ever-increasing terrestrial radio interference. This is why some Seti searchers want to place a huge radio dish on the dark side of the moon. They have targeted a 100-km-wide crater near the lunar equator, the only place in the solar system with no radio interference from earth.

Oppermanns were among 200 employees-shareholders bought out by Thomson in the US\$3.4bn deal. *Bernard Simon*

West managers named



Change of style at head of Swiss Re

Walter Kielholz, who succeeds Lukas Mühlmann as chief executive of Swiss Re after the latter's promotion, last week to head the restructured Credit Suisse Group, is a marked contrast to his fast-moving predecessor.

An insurance industry veteran - Mühlmann is a former McKinsey consultant - Kielholz joined Swiss Re in 1988 as head of its Japan and the Far East sector.

He had previously worked at General Re, the US-based reinsurer, and Credit Suisse, where he was responsible for customer relations without providing many details of the posts concerned.

The Commission argued that those posts were too remote from the specific activities of the public service to be covered in general by the exemption. In those circumstances, it must be entitled to exclude application of the exception in all the areas raised in the proceedings, without any preliminary post-by-post examination.

The Commission also found that the activities performed in the areas in question also existed in the private sector or could be performed in the public sector without being subject to a nationality condition.

Ralph Atkins

that this approach was affected by arguments put forward by Luxembourg concerning the preservation of national identity and its special demographic situation. In the Belgium and Greece cases, the court refused to take into account changes in legislation which had not been implemented before the expiry of the period set by the Commission in its reasoned opinion.

Similarly, the fact that after the expiry of that period a German musician who wished to be employed by the Athens Opera had been given a contract of indefinite duration, was irrelevant.

The court also rejected the request of Luxembourg that should it be found in breach of its obligations, it be granted a long period of grace in order to comply with Community obligations. The court observed that the EC treaty did not confer any power on it to grant a period of time for compliance which formed the foundation of the bond of nationality.

The exception did not, therefore, cover posts which, while coming under the state or other organisations governed by public law, did not involve any association with tasks belonging to the public service proper so called. Having analysed the posts to which access

forwarding group, replaces Alain Peinot. Wolfgang Gritz is stepping down as ICF's joint managing director, leaving Soren Rasmussen in sole charge of the group.

■ Rod Chadwick, the incoming managing director of PACIFIC DUNLOP, has named four executive managers: Ian Veal (strategic direction); Philip Gay (finance); Paul Dainty (on secondment from Melbourne Business School - organisation development and learning); and Howard McDonald (Pacific Brands), with responsibility for a strategic review of the \$1.3bn consumer products group.

■ Martyn Lloyd has been appointed director of European public affairs at EDS, the information technology services provider. He previously held a similar role at Apple Computer Europe.

■ Thomas Nyström, 57, and Antti Sojka, 46, join the operative management board of METSA-SERIA, the Finnish forestry group, with respective responsibilities for marketing and sales, and development of the packaging business.

Christian van Niftrik, senior executive vice-president for converting business, retires on August 1, when Juhani L'Huillier,

■ Percy Allan, 49, finance director of BORAL, the Australian energy and building materials group, is leaving after two years in the job. He is being replaced by Brian Hill, formerly with biscuit maker Arnotts.

■ Kevin Dougherty becomes vice-president, group insurance for Canada at SUN LIFE ASSURANCE COMPANY OF CANADA. ■ Marcel Gingras becomes vice-president, individual insurance for Canada and Dikran Ohannessian, vice-president, business practices.

■ Edmund Belak becomes head of HILL AND KNOWLTON'S US financial communications practice. Jeff Zilkha becomes deputy director.

■ Arthur Lipper, appointed chairman of BAT International on April 20, resigned on June 13. BAT says it is seeking a qualified motor industry executive to replace him.

■ New Zealand brewer LION NATHAN has appointed Tony Van Krullingen, previously director of operations of South African Breweries, as head of its Australian operations after the departure of Leon Douglas.

■ Albert Luke becomes staff vice-president for strategic development at DRESSER INDUSTRIES, the Dallas-based energy resources group. He was previously vice-president,

alliance operations at M.W. Kellogg, Dresser's engineering and construction subsidiary.

■ Diane Calma becomes senior vice-president, production at UNIVERSAL PICTURES. She comes from international Creative Management.

■ David Brubaker becomes director of south-east Asia manufacturing at EASTMAN KODAK.

■ Joy Thoma has been named senior vice-president of planning for the Asia Pacific region at MASTERCARD INTERNATIONAL.

■ Dieter Wissler is to head Novartis' German unit, following the merger between Ciba Geigy and Sandoz.

■ Khalid Ismail is to chair the JARDINE MATHESON Group in Malaysia, with a seat on the Asia Pacific regional board of Jardine Matheson Holdings. Ismail recently retired as secretary general of the Malaysian civil service.

■ Rodney Linford succeeds George Kersels as general manager for space flight programmes at McDONNELL DOUGLAS.

■ H.J. Heinz II becomes staff vice-president of H.J. HEINZ of Canada and chief executive of Heinz Bakery Products. He replaces John Crawshaw, who will head Heinz's Pacific Rim businesses.

■ Lee Suan Yew has resigned from the board of HOTEL PROPERTIES in Singapore.

■ Chay Kwong Soon, co-founder, president and chief operating officer of CREATIVE TECHNOLOGY, the computer sound board maker based in Singapore, has resigned. He will remain a director.

■ Richard Cavill, deputy chairman of SOUTHCORP HOLDINGS - Vinton and Industrial group, has retired.

■ William Harper, chief financial officer of NATIONAL STEEL Corp. of the US, has resigned.

■ Bruce Nakao has resigned as chief financial officer of Adobe Systems to take the same role at PUMA TECHNOLOGY.

Charles Geschke, president of Adobe, will take temporarily over Nakao's responsibilities.

International appointments

Please fax announcements of new appointments and retirements to +44 171 573 3526, marked for International People.

Set fax to 'fine'.

threat
lawful

Nationality curb ruled unlawful

The general prohibitions on non-nationals occupying certain posts in the public sector in Luxembourg, Belgium and Greece were contrary to EC treaty provisions on freedom of movement for workers within the Community, the European Court of Justice ruled.

In three related cases, the European Commission brought proceedings against Luxembourg, Belgium and Greece over access to posts in fields as diverse as teaching, health, transport, post and telecommunications, and water, gas and electricity distribution. In the case of Greece, the prohibition extended to the Athens Opera and municipal orchestras.

Having sent letters of complaint and issued reasoned opinions to each of the states, the Commission brought three actions in the European Court of Justice complaining that Luxembourg, Belgium and Greece failed to fulfil obligations under the EC treaty and secondary legislation over freedom of movement for workers.

The treaty laid down the principle of the free movement of workers and the abolition of all discrimination based on nationality between workers of member states. It also stated that the provision in question was not to apply to employment in the public service.

According to the case law of the Court of Justice, this exception only covered posts which involved direct or indirect participation in the exercise of powers conferred by public law and duties designed to safeguard the general interests of the state or of other public authorities. This presumption on the part of the post-holders, a special relationship of allegiance to the state and reciprocity of rights and duties which formed the foundation of the bond of nationality.

The exception did not, therefore, cover posts which, while coming under the state or other organisations governed by public law, did not involve any association with tasks belonging to the public service proper so called. Having analysed the posts to which access

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AMSTERDAM

Closer at Ba
William Packer's retrospective exhibition
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Closer look at Bacon

William Packer visits an important retrospective exhibition in Paris

Francis Bacon died four years ago at the age of 82, though by the apparent virtue of his work to the last, he hardly seemed so old. Yet he had been a central, if singular figure in British art for almost 50 years, and already a marked and coming man for some time before that.

Such people are well able to sustain their own myth, and Bacon evidently relished and cultivated that singularity. He was clearly the most famous and internationally successful British painter in his lifetime, but, more than that, he was definitely the odd man out – a figurative painter, symbolist, surrealist and expressionist in a world of cooler abstraction and conceptualism, and living a life to match.

But as time goes on, so we begin to see his oeuvre from first to last, despite its contradictions and shifts of emphasis, as all of a piece. He may have destroyed most of his early work and stopped painting for a while; he may seem consciously to have set his mature career and reputation on the still extraordinary triptych of 1944, "Three Figures at the Base of a Crucifixion", by which he marked the moment he began to paint again and first came before a wider public. Even so, enough of the earlier work survives and, piece by piece, comes back into the light to qualify as self-presentation.

Artists have their own position, which is not necessarily ours. They are not always the best judges of their own work, standing so close to it, perhaps, as to see the trees but not the wood. The true artist will always do more than he knows, let alone intends, and Bacon himself insisted upon the primary importance to the painter of chance and intuition and pure luck. "That is why real painting is a mysterious and continuous struggle with chance", he wrote in 1981.

Three years ago at Venice the critic David Sylvester effectively reintegrated Bacon's work after 1945 with that of the previous 20 years or so, testing the view that

Ballet in Amsterdam/Clement Crisp In great rapport with Balanchine

rotic kick-boxing of William Forsythe and his devotees).

The Dutch ensemble looks fine in Balanchine, and Balanchine looks fine in their performance. It is a tribute to Wayne Eagling, DNB's artistic director, that the dancers have so assumed a manner for this repertory. I sense that he has given a clearer edge to their style. It is also a tribute to Karen van Arolingen, grand Balanchine dancer who has coached the present season.

In the decade since the choreographer's death, his creativity can be seen ever more clearly as a leavening, revivifying force, telling of the primacy of classic dance, and reminding audiences and dancers alike that his ballets bless and brace and illuminate. What delights me, who have been watching them over 50 years, is their continuing power to astonish. Craftsmanship is transcendent – they are beautifully made, products of a great cabinet-maker – and they reveal, in loving and idiomatic performance, an ever-fresh mastery. (Agor, nearly 40 years old, remains one of the central masterworks in the arts of our century, and still seems adventurous – far more daring than the neu-

■ AMSTERDAM

DANCE Het Muziektheater

Tel: 31-20-5518117

• Het National Ballet: perform

Balanchine's Serenade to music by Tchaikovsky, Agon to music by Stravinsky and Symphony in Three Movements to music by Stravinsky. Part of the Balanchine Summer Festival; 8.15pm; Jul 9, 12

EXHIBITION Rijksmuseum Tel: 31-20-5732121

• South Wing: The wing reopens after three years of renovation – 18th and 19th century paintings, Asian art, costumes and textiles in 16 new rooms; to Sep 22

■ AVIGNON

FESTIVAL Festival d'Avignon

Tel: 33-90 82 57 08

• Festival d'Avignon: theatre

INTERNATIONAL ARTS GUIDE

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festival established by Jean Vilar in 1947 in order to provide a context for theatre-going different from that of the Paris boulevard theatres. The festival is always held in July, when commercial and state theatres in France are closed.

With its increasing popularity, it has opened out gradually to embrace other genres such as dance and music.

This year the 50th edition is held.

This year's theatre highlights include Alain César's La Tragédie du Roi Christophe, directed by Jacques Nicaït, and Le Nuit du Théâtre, which will be broadcast live on French television (Jul 28).

Other highlights include

performances by Bill T. Jones and the Amie Zane Dance Company,

featuring choreographies by Bill T. Jones, the celebration of the 20th anniversary of the Centre Acanthes,

with the co-operation of Pierre Boulez, Henri Dutilleux, György Ligeti and Iannis Xenakis, and the exhibition Deux Palais pour Rodin in the Palais des Papes and the Petit Palais, devoted to Rodin; from Jul 9 to Aug 3.

■ BERLIN

EXHIBITION Berlinische Galerie – Martin-Gropius-Bau

Tel: 49-30-254866

• Anne Ratkowsky: Eine vergessene Künstlerin der Novembergruppe; exhibition devoted to the work of the German painter Anne Ratkowsky, a member of the Novembergruppe, a movement of Expressionist artists formed in Berlin in 1916. The display

■ EDINBURGH

EXHIBITION

Scottish National Gallery of Modern Art

Tel: 44-131-558821

• Alberto Giacometti 1901–1966:

the first significant exhibition of

Giacometti's work in Britain since

1946.

■ NEW YORK

EXHIBITION

Whitney Museum of American Art

Tel: 1-212-570-3600

• Shigeo Kubota: exhibition

featuring a new installation of

metal, mirror, video, and motorized

sculptures, created between 1982

and 1996 by Shigeo Kubota. The

■ SYDNEY

EXHIBITION

Drama Theatre, Opera Theatre,

Playhouse

Tel: 61-2-250-7127

• Lucreta Borgia: by Donizetti.

Conducted by Patrick Summers and

■ PARIS

EXHIBITION

Centre Georges Pompidou

Tel: 33-1-44 78 12 33

• L'Informatif: exhibition focusing on the history of Modernism. The display includes works by Pollock, Duchamp, Fontana, Smithson, Warhol, Hesse, Dubuffet, Rauschenberg and others; to Aug 26

■ SAN FRANCISCO

CONCERT

Louise M. Davies Symphony Hall

Tel: 1-415-864-6000

• Hooray for Hollywood: a

celebration of Hollywood film scores,

featuring the San Francisco

Symphony with conductor Emil de

Cou, Broadway and film actor Joel Grey, and dancer Evelyn Casanovas and Stephen Legate. Opening night of the San Francisco Symphony Pops; 8pm; Jul 12

■ WASHINGTON

EXHIBITION

National Portrait Gallery

Tel: 1-202-357-1915

• 1848: Portrait of the Nation:

celebrating the 150th anniversary of

the founding of the Smithsonian

Institution, the exhibition describes,

in illustrations, manuscripts, clothing

and sculpture, the political, cultural

and social character of America in

1848 by focusing on leading figures

of the time; to Aug 18

■ SYDNEY

OPERA

Drama Theatre, Opera Theatre,

Playhouse

Tel: 61-2-250-7127

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Dark humanism: 'Portrait of George Dyer Riding a Bicycle', 1966, by Francis Bacon

names as Picasso, Baselitz, Clemente and Salle are all prefigured in the images of the 1950s. To say as much takes not a whit away from Bacon's interest, originality or importance as an artist, but only from that supposed isolation.

Bacon remains unquestionably a remarkable and major artist, and the better for the loss of his splendid isolation. His faults we can live

ARTS

Weird stuff – but first rate

Ian Shuttleworth is tangentially challenged by Sam Shepard dramas

For three weeks, Battersea Arts Centre has become a temple to America's greatest living exponent of oblique drama, Sam Shepard. His face (or at any rate the left half of it) gazes down from walls; the cafe and bar play a selection of Shepard-programmed music ranging from Eric Dolphy to his former New York cohort Patti Smith and Ry Cooder's soundtrack to Paris, Terminus (co-written by Shepard); and a number of late night shows are presented in addition to the three main evening productions.

The main performance base hosts States of Shock, premiered off Broadway in 1981 and an excellent introduction to Shepardian arcana. Into an ordinary dinner come a traumatised wheelchair-ridden young man and a colonel in pomposely over-decorated dress uniform. Their meal is interspersed with and finally overridden by, the colonel's desire to force young Stubbs (a remarkable performance by Jason Done) to relieve the battle in which the colonel's son was killed. As the 70-minute show progresses, fragments of truth emerge, but Shepard leaves it to the audience to assemble these into a cubist picture of a family in denial. At the next table, the difficulties of Air and Mrs Middle-America draw indirect parallels with the tensions and complexities of the nation as a whole. Behind a gaze at the rear of the stage, a couple of percussionists are let loose periodically, though not often enough to create the oppressive sense of distant artillery fire which director Michael Kingsbury intends. This is weird stuff, to be sure, but first-rate weird stuff.

Studio Two's 95-minute show, Suicide in B Flat (1976), is anything even more tangential. Director Andrea Brooks adroitly follows Shepard's advice not to try to "solve the play". That task is left to a couple of investigators (Glen Barnes and the fine Sean Prendergast), and it is one at which they inevitably fail. Is composer Niles really dead? If so, why and how? If not, whose corpse, his face blown off, have they discovered in his apart-

ment? In either case, what kind of Limbo are Niles and his childlike companion Paulette inhabiting that they can kill without being noticed?

Don't ask me... or Shepard. What matters are the tensions and contrasts between the men in suits, a couple of jazzers who worked with Niles and the ethereal duo – the interplay of mentalities, person versus instinct and several conflicting instincts at that. It is as if the only way to approach profundity is through a partial and hallucinatory modern fable; it is also the closest I have seen to conveying the tangled spirit of modern jazz in drama.

A Lie of the Mind (1985) in Studio One is the only two-set play. Its narrative is more linear and bears a closer relationship to reality, but within this framework sit two families in which each member has his or her own quirks and dysfunctions. After Jake has left his wife Beth for dead on a highway, she retreats into psychosis in his own home whilst she slowly recovers from severe brain damage in the warped bosom of her family. Melissa Chalsma is terrific as Beth, her elliptical outbursts serving as the principal vehicle for Shepard's authorial comments on the human mind and heart. The patterning of the play is a little too deliberate, with motifs being picked up from scene to alterating-family scene and great care taken to display the central lie in each character's mind, be it a concept of family, love or morality.

For this reason, although Toby Reiss's production (with its largely American cast) is every bit as tight and intelligent as the other two, A Lie of the Mind is somehow less satisfying: the meaning is delivered on a platter rather than our having to track it down through sniffs of bewilderment. Shepard is a writer for whom the word "difficult" is a term of approval, and the work on show at Battersea ably demonstrates that clarity and directness are not at all the same thing.

All three shows at BAC, London SW11, until July 20 (0171-2232223).

The Doctor of Myddfai

David Murray reviews Peter Maxwell Davies' new opera

Sir Peter Maxwell Davies has written a new work for the Welsh National Opera, The Doctor of Myddfai, which he suggests may be his last opera. For once he has chosen another person to be his librettist – David Pountney, a renowned opera producer as well as a skilful translator; together they hit upon a suitable Welsh legend, and devised a modern parable to enclose it. The mysterious story employs a large cast, and contrives to include some hymns in Welsh for the sake of the WNO's famous choir.

The second programme began with Themes and Variations, Balanchine's tribute to the old Petersburg ballerina. With a Petersburg artist, Larissa Lezhneva, at its heart, the resonances of the piece were clear. Lezhneva was a young Kirov star whose Aurora was a golden creation. She has been with DNB for the past few years, and has grown into a radiant, assured ballerina. Her serene style, the way in which the dance flows through the torso and is crowned by the arms, is ideally seen here: the choreography glows.

In Balanchine's late and teasing setting of Hindemith's Kammermusik No. 2 – a chorus of eight boys surround two darling, dazzling women in unguzzled but thrilling games – and in the staggering Violin Concerto, the Dutch ensemble and its admirable principals gave disciplined, vital accounts, making grand sense of masterworks. They were well nourished by the dance. And so, gratefully, had we.

The Dutch National Ballet Balanchine season continues at Amsterdam's Muziektheater until July 13.

Stravinsky symphony. In Nathalie Caris, the central woman in Agon, a dancer of potent temperament who shaped the pas de deux with Boris de Lewin impeccably; in Enrichetta Cavallotti, a dancer whose every step in the symphony was pungent, fascinating.

The second programme began with Themes and Variations, Balanchine's tribute to the old Petersburg ballerina.

Sir Peter Maxwell Davies has written a new work for the Welsh National Opera, The Doctor of Myddfai, which he suggests may be his last opera. For once he has chosen another person to be his librettist – David Pountney, a renowned opera producer as well as a skilful translator; together they hit upon a suitable Welsh legend, and devised a modern parable to enclose it. The mysterious story employs a large cast, and contrives to include some hymns in Welsh for the sake of the WNO's famous choir.

The Cardiff premiere last Friday is to be followed by two performances in Llandudno (this Wednesday and Saturday), and in the autumn the WNO will tour it through its usual ports of call. The Cardiff audience faced up to it rather well: puzzled, reasonably enough, at the end of the first act, but heartened by the overt drama of the second

COMMENT & ANALYSIS



Martin Wolf

The fiscal trap for Labour

The party has dropped most of its seriously wrong solutions to the economy's problems but its new ideas are unlikely to lead to improved growth

Mr Boris Yeltsin's success shows that anything is possible in politics, even resurrection of the electorally dead. But the overwhelming odds are that Mr John Major will not manage to return to life in a similar fashion. So how might the economy fare under Mr Tony Blair's New Labour? Would he be able to avoid raising taxes? Would he increase the economy's long-term rate of growth? Would he lower the underlying rate of unemployment? The answer to these questions has to be no.

Labour may not have the right answers, but it has at least dropped most of the seriously wrong ones. The result is a split personality. "New Labour, now Life for Britain", the proto-manifesto published last week, may condemn Tory misdeeds, but its authors also accept large chunks of Conservative thinking. On macroeconomic policy, for example, the document claims that "we will set strict rules on spending and borrowing". Moreover, "the priority must be stable, low-inflation conditions for long-term growth".

It sounds most attractive. Unfortunately, Mr Gordon Brown, Labour's putative chancellor of the exchequer, will find himself facing fiscal difficulties from the very start. Considerable effort will be needed merely to control the growth of fiscal deficits and debt, as today's revised forecast from the Treasury should make clear to anyone who reads between the lines.

Mr Bill Martin, chief economist of UBS and ever a thought-provoking maverick, has argued that the public sector borrowing requirement far from dwindling away as Mr Kenneth Clarke, the chancellor, forecast last November, could remain at an unacceptably high 4 per cent to 5 per cent of gross domestic product for the rest of the decade. This is not implausible. All Mr Martin does is assume that public spending and GDP grow in line with historic trends.

What has already happened since Mr Clarke claimed to

have solved the problem of the public finances in his Budget of November 1993 suggests that this gloomy view could well be right. As the chart suggests, the rapid economic growth of 1994 improved the public finances by more than had been expected in November 1993. Since then things have

more than half a percentage point of GDP in 1997-98.

For Labour, the problem is worse than it appears to be, partly because there are likely to be yet more tax cuts in November, but principally because the government's forecasts rest on implausibly tight control over public spending. In November 1996, for example, Mr Clarke forecast that government spending would to all intents and purposes, not rise at all between 1995-96 and 1998-99. It stretches credibility to suggest that even the Tories would achieve this. It seems inconceivable that Labour will - or would want to.

The fiscal cupboard is bare. Under plausible assumptions, as Mr Martin argues, the ratio of the fiscal deficit to GDP may have to be cut by 2 percentage points, amounting to some £15bn a year - the equivalent of 8p in the pound on the basic rate of income tax. And even this would finance real growth of public spending after 1997-98 only in line with its long-term trend of some 1% per cent a year.

The attractive ways out of the fiscal trap are, of course, faster growth and lower unemployment. Gloomy forecasts, such as Mr Martin's, assume what has gone wrong? Part of the answer is a shortfall in receipts from taxation. Another has been disappointing economic growth. Last November's forecast of 3 per cent growth in 1996 is likely to be half a percentage point too high and it follows an even larger exaggeration of 1995 growth in the forecast of November 1994. There are also the tax cuts of last November, which will reduce revenues by

more than half a percentage point of GDP in 1997-98.

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The big reasons are, first that raising an advanced country's rate of economic growth seems to be hard. Second, so many different policies have already been tried. Yet the UK's rate of growth has been amazingly stable: the economy has grown at an average compound rate of close to 2 per cent since 1982; since 1990, the rate of growth has been the same; since 1945, it has been a little faster, at 2.2 per cent; but it has been back to 2 per cent since 1976. As Henry Ford would have said, the British can have any rate of growth they want, so long as it's 2 per cent.

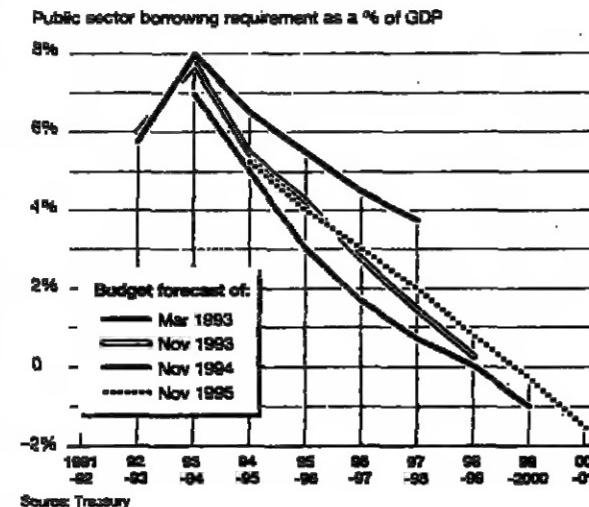
Evidently there exists a minimum wage so low that it would make no difference, good or bad. It would have to be very low indeed. A minimum wage of £3.35 an hour, for example, would directly affect 32 per cent of part-time women and 40 per cent of part-time men, though only 18 per cent of full-time women and 8 per cent of full-time men. A minimum wage of £4.15 an hour (50 per cent of the median male wage) would affect 55 per cent of part-time women and 54 per cent of part-time men. Could the unspeakable purpose of these proposals be to curtail part-time work, most of which is done by women, in order to boost full-time employment opportunities for men?

Will Labour raise taxes? Probably yes. Will it increase the underlying rate of growth and lower the underlying rate of unemployment? Probably not. Could the economy perform in line with its long-run trend rate of growth under Labour? Yes. But what Mr Blair must hope is that there is enough slack in the economy to give a good period of above-trend growth. It just might be there. It would be rash to assume it.

In one respect, they seem certain to make things worse. That exception is unemployment. Here there is a gimmick

to one respect, they seem certain to make things worse. That exception is unemployment. Here there is a gimmick

How the Treasury forecast the fiscal deficit



Source: Treasury

B. Gerald Cantor
1916-1996

Cantor Fitzgerald

New York . London . Tokyo . Paris . Los Angeles . Chicago . Boston . Dallas . San Francisco . Toronto

COMMENT & ANALYSIS

Personal View · Frank Vogl

Customers come last in global air links

Airline alliances work against the interests of passengers - and of their safety

I had booked my flight from Brussels to Boston on Delta Airlines

& my ticket

said Delta as well. But as I walked down the boarding ramp, I knew something was wrong: the stewardesses were not in Delta uniform. The logo everywhere was that of Sabena, the Belgian airline

that is in an alliance with Delta, Austrian Airlines and Swissair.

It was an old European Airbus, not a spanking new Boeing 777 of the kind United Airlines used to fly me to Europe. The legroom in business class (my round-trip ticket to Europe cost more than \$3,000) was so sparse it was a pleasure to fly onwards to my final destination from Boston in the comfor

t of KLM aircraft that is not subject to Federal Aviation Authority controls?

The Dutch authorities that regulate KLM may be better regulators than the Americans. But can the same be said for most other national authorities which licence the airlines increasingly joining the widening net of global airline alliances?

This dispiriting experience was yet another example of the consequences of airline alliances, a sign that airlines often put the short-term interests of their shareholders ahead of those of their customers.

Once PanAm flight 1 could jet you around the globe. But today no airline has global coverage to all the destinations that people want to go to in ever greater numbers.

To be competitive, however, airlines have to suggest to consumers that they offer global coverage. As a result, they are forging ever-deeper strategic alliances with each other - such as those between Delta and our new European buddies, British Airways and American Airlines, or Northwest Airlines and KLM, the Dutch carrier.

It is all part of an obsession among airline bosses over market share - they all want more of it. Competition is exacting and it might be argued that there are too many companies now flying the "friendly skies". No airline believes it has enough of the global market and all fear they will be losers unless they swiftly secure alliances.

For the customer, this can mean unpleasant surprises of the sort I experienced on my return flight from Europe. But it also raises questions about safety standards, particularly in the wake of the Valujet crash in Florida.

The US Congress is about to hold hearings into airline safety, and experts are going on US television and radio programmes to warn people to fly only on airlines that the authorities have clearly declared as safe. But, what can passengers do if they buy a Northwest Airlines ticket and discover they are flying on a KLM aircraft that is not subject to Federal Aviation Authority controls?

The Dutch authorities that regulate KLM may be better regulators than the Americans. But can the same be said for most other national authorities which licence the airlines increasingly joining the widening net of global airline alliances?

The answer is almost cer-

tainly no. The reality is that in

the race for global market share to

fend off potential competitors

share to fend off potential competitors and secure the tremendous profits that globalisation can bring, the airlines are willing to take risks with customer standards.

They are willing to surprise passengers about the airline they will travel on, the equipment they will fly on, the quality of in-flight service they will receive and the standard of ground safety/maintenance service that the airplanes may be subject to.

To overcome this problem the world's leading and most regulated airlines would have to insist that their partners all meet very high international standards. The tests would range from the basics of safety to the extremes of business class and first-class luxury. Meeting such tests, at least in the medium term, would probably be seen as too expensive for the airlines in a hurry to offer the best global networks of alliance-driven international routes.

The competitive pressures of globalisation are mounting in almost all business sectors, forcing managements to consider trade-offs. Do they place shareholder value above customer value? Do they assign lower priority to concern for their employees as they cut costs? And do they try to do an end-run around safety regulations just to make a few additional dollars?

To place shareholders above all other interests is a short-term strategy that can only end badly. Delta, by tricking me into a Sabena flight, is no longer my airline of preference and I have more choices today than ever.

If the partner of a leading world airline crashes, the damage to the latter's reputation will be enormous - and the costs to it very high.

The strategies of new global alliances, in all business sectors, should start taking greater account of such considerations.

The author is president of Vogl Communications of Washington DC, a strategic management consultancy.

LETTERS TO THE EDITOR

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We are keen to encourage letters from readers around the world. Letters may be sent to +44 171 873 5538 (please set fax to "line") or email: letters@editor@ft.com. Translation may be available for letters written in the main international languages.

Remember EU's fourth freedom

From Mr David Martin MEP.

Sir, In his Personal View (July 2), Onno Ruhing rightly argues that the European Union has "... in most respects reached the goal of the single internal market - with its attendant free movement of goods, services and capital - as envisioned by the Maastricht Treaty in 1992".

I do not think it was intentional, but it is pertinent that the former finance minister of the Netherlands missed out the fourth of the four famous freedoms - the freedom of movement for labour, or citizens, within the single internal market.

The single market will never work properly unless we have the freedom of movement for

labour to work within the European Union. The European Court of Justice last week came to the aid of teachers, musicians and other European Union citizens trying to get work within the Union.

In three judgments it ruled that Belgium, Greece and Luxembourg broke European laws by preventing non-nationals from holding public sector jobs in fields ranging from education to post and telecommunications.

Although the European Union's founding treaties guarantee free movement of workers, they also provide an exemption for public sector workers. However, recent rulings of the Court of Justice have meant only jobs involved

in making public policy or safeguarding the interests of the state can be reserved for nationals. Teachers, people working in public utilities or healthcare and transport should not be included.

Freedom of movement for workers must be a basic right under European Union law and is just as important as freedom of movement for goods, services and capital. Last week's ruling is a significant step towards freedom for EU citizens to work in other member states.

David Martin,
vice-president,
European parliament,
4 Letham Street,
Dalkeith, Midlothian, UK

No need for new status

From Mr Jack Wigglesworth.

Sir, Another problem: another instant solution. But the challenge facing member-run exchanges - such as the London Stock Exchange and the London International Financial Futures and Options Exchange (Liffe) - would not be removed by turning us into plc with a broader range of shareholders (lex, July 1).

On the contrary, an exchange can only be successful if it serves the investing public. An exchange's member firms can only make profits if they meet those same needs. So giving control to members allows swift responsiveness to the needs of the market. Being a plc with a different set of shareholders and interests could only be a distraction. Control by members is also more consistent with our regulators' role under the Financial Services Act 1986 - a role which we take extremely seriously and where direct member input is vital.

Liffe has experienced more than 40 per cent growth a year since 1982 to become the largest exchange of its kind outside Chicago - proof indeed of the ability of member-run exchanges to act commercially and exploit market opportunities.

Jack Wigglesworth,
chairman,
London International
Financial Futures and Options
Exchange,
Cannon Bridge,
London EC4H 3XX, UK

All in a name

From Ms Fiona M. Schneider.

Sir, Having lived in Germany for seven years, it now looks as if the difficulties with my surname are at last set to end ("Deutsche Bank introduces Fiona", July 4). Regrettably, I fear, as I would rather be known as Viola, Fiola or Vesona than Frankfurt Inter Bank Overnight Average.

Fiona M. Schneider,
Burgstrasse, 5,
D-30826 Garbsen,
Germany

The reality of democracy for Russians

From Dr Marek Laskiewicz.

Sir, The key point about the Russian presidential election is that it shows the high support for communists. This confirms what I have consistently said since June 1991 - unlike all the experts, who blow with the wind - and what I have explained in *Russia and World War III* (ISBN 1871771021), namely that war (possibly

nuclear) may still occur. For Russia may react against an unsuccessful capitalist democracy and may support a revisionist neo-communist dictator.

So, while the Anglo-Saxons believe democracy is wonderful, what the Russians see is disorder, territorial disintegration, and poverty, albeit partly masked by aid.

Marek Laskiewicz,
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FINANCIAL TIMES

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Tuesday July 9 1996

The state and the volunteers

Britain has a long and laudable tradition of voluntary effort. In culture and practice it is midway between the US and continental western Europe; the state plays a significant social role, but has not crowded out charities and volunteers. Yet from it, more than 200,000 people do voluntary work, everything from scout clubs to lifeboat stations, and the charitable realm extends to health and education services regarded as core governmental responsibilities elsewhere.

In typically British fashion the complex policy issues raised by the voluntary sector have been left largely to custom, practice, a few quangos and the odd government steer. Recent steers have been significant, notably the creation of the National Lottery, providing massive semi-public funding for sports and welfare charities.

Yesterday's report of the commission on the future of the voluntary sector is therefore timely. Its recommendations are radical, but mostly go with the grain of developments in the voluntary sector and are to be welcomed. The three central issues are the legal framework for charities; the definition of activities meriting charitable status; and the management structures of voluntary organisations.

On the first two, the commission proposes to replace the arcane legal framework with a "single, clear and flexible" legal category and a set of associated reforms. This would tackle obvious anomalies, notably the inadequate official oversight provided

No cure for Aids

This week's international Aids conference in Vancouver is more optimistic in tone than any such occasion since the mid-1980s. Recent research has given hope that drug combinations will be able to keep symptoms of the disease under control almost indefinitely.

But the new optimism must not obscure the fact that, on a global basis, Aids remains one of the world's most serious public health issues. HIV, the virus that causes Aids, has already killed several million people – mainly in sub-Saharan Africa and the UN programme on HIV/Aids says 2m more are infected.

Even in industrialised countries where most victims have been homosexual men and illegal drug users, complacency is not justified. Contrary to the dire predictions of some experts 10 years ago, no Aids epidemic has yet swept through the heterosexual population of the western world – but epidemiologists warn that the spread of HIV infection via unprotected sexual intercourse is still gathering momentum.

For the poorer regions of Africa, Asia and Latin America, where there is already a devastating Aids epidemic, the encouraging news that a triple cocktail of HIV drugs seems to stop the virus replicating is almost irrelevant. The cost of such treatment – up to \$18,000 a year for each patient – will be a daunting burden for healthcare systems in the west; in the

OAU dilemma

Two years after genocide in Rwanda, neighbouring Burundi is falling into a similar nightmare of ethnically motivated slaughter. In 1994, the international community was blamed for a belated response that failed to avert the Rwandan killings. Having intervened, the outside world could offer no long-term solution. This time, the western powers are staying on the sidelines in Burundi, refusing to commit troops to a country where they have little at stake.

The burden of responsibility for bringing peace therefore rests on the shoulders of the African leaders currently attending the Organisation of African Unity summit in Cameroon. But they are in a dilemma. If Africa fails to tackle the crisis in Burundi, prospects for ending conflicts elsewhere in Africa are bleak indeed. But an ill-timed, poorly supported and inadequately prepared intervention could do more harm than good, conceivably precipitating civil war if the army it is trying to avert, and even turning a national conflict into a regional war.

The situations in Rwanda and Burundi are confusingly comparable, yet different. In the former, newly formed Tutsis were systematically killed by a Hutu majority determined not to share power with the Tutsi minority. In Burundi, the Tutsi minority is in control of the army and civil service and refuses to share power with the Hutu majority.

Once again, the world is con-

fused with a tragedy it seems incapable of averting. The death toll in Burundi is running at 1,000 a month. The flood of refugees from both countries threatens to destabilise the region. After many months of negotiations led by former Tanzanian president Julius Nyerere, the basis of a peace plan has taken shape. Regional leaders have proposed an African force comprising troops from Uganda, Tanzania and Ethiopia which would try to stop the killing.

The response from both Tutsi government and Hutu rebels since they leave it far from clear that such a force would be accepted. Instead of keeping the peace between the two sides, it might have to be peace-making, or peace-enforcing. That would require a much larger number of troops, considerable financial resources and a long-term commitment.

There is some suspicion that the threat of international intervention is merely a ploy to force both sides to negotiate. The danger is that will not happen, and the OAU bluff will be called. If this African initiative is to succeed, it must be clear not only that both sides in Burundi welcome it. It must also win the support of President Mobutu Sese Seko of Zaire, where most Hutu guerrillas are based.

Only if African leaders at the OAU summit present a more convincing plan should the scheme go ahead.

COMMENT & ANALYSIS

A firm hand on democracy

Algeria faces an uphill struggle in its latest attempt to reshape its political system after the violence of recent years, writes Roula Khalaf

When an Algerian opposition leader met President Lamine Zeroual recently and proposed that Algeria hold a "peace" conference, the president dismissed the idea. "They don't like to hear us speak of peace," explains the opposition leader, "because it assumes that what we have is a war."

Bolstered by his victory in presidential elections in November and confident that Islamist militants no longer pose a threat to his regime, Mr Zeroual has decided it is time for Algeria to move on from the crisis caused by the fighting of the past four years.

Pronouncing that the violence has become "residual", Mr Zeroual is attempting to reshape Algerian politics into a form that appears democratic while ensuring firm state control and continuing to exclude his Islamist opponents from the political process.

Algeria surprised the Arab world in 1989 with its decision to move from one-party rule to western-style multi-party democracy. More than 80 parties were established, an independent press flourished and economic liberalism began to take root. But it was a newly-formed Islamic party, the Islamic Salvation Front (FIS), that mesmerised Algerians by capitalising on their social and economic plight and on their disgust with the ruling National Liberation Front.

When the FIS won the first round of general elections in December 1991 and looked as though it would control the national assembly, the army seized control of the country to put an end to the democratic experiment.

The Islamists then took up arms, sinking Algeria into a state of chaos and raising fears in western capitals of a radical Islamist takeover which would spill over into the rest of north Africa and send hordes of immigrants knocking on the doors of Europe. More than 40,000 people have been killed in the conflict in a country that is one of Europe's leading suppliers of natural gas.

Now Mr Zeroual, a former army general, has declared that the country is ready for a fresh start this time with much stricter rules of play. After a first round of talks with politicians and community leaders in April, he announced that Algeria would hold general and local elections in 1997. Before then, there would be a referendum on amending the Algerian constitution.

Voters would be asked to approve proposals to prevent parties from using Islam to further their political ends and to set up a second chamber of parliament, some of whose members would be appointed rather than elected. The introduction of a system of proportional representation would also minimise the risks of a single party winning control of the national assembly.

They say it is wrong to assume that the violence has largely been dealt with.

Information is tightly controlled, but there are still regular bomb explosions and attacks on civilians and members of the security forces. Incidents such as the killing of seven French monks in the spring have highlighted the dangers of life in Algeria.

Nor have the grievances that won the Islamic Salvation Front such

Algeria: struggle for stability

Population
Annual % change



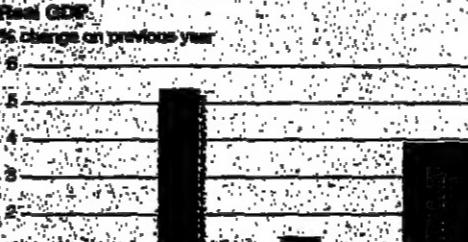
Unemployment
% of labour force



Exports of crude oil and natural gas



Fuel oil
% change on previous year



widespread support in 1991 gone away. With 60 per cent of Algerians aged under 25 and with the population growing at more than 2 per cent a year, the real challenge facing Algeria is found on every street corner.

They call them the "hollandais" – the people who lean against city walls (*hollandais*). These are the disillusioned youths brought up in a failed education system and ruled by a corrupt government that squandered the country's resources. Unemployment among the young is estimated at 35 per cent.

Several opposition leaders say that the best way to reduce the violence is to include at least some FIS leaders in the political process. But discussions between the FIS and the government have repeatedly collapsed in the past four years, and the government has now decided to exclude them completely.

In an economy still controlled by a bloated state sector, hopes for a revival rest on foreign investment, but potential investors are still being frightened away by the violence.

The regime has succeeded in splitting the FIS leadership by jailing some leaders and forbidding others to speak in public. The party's reputation has also been damaged by the reluctance of its leaders to condemn acts of terror. Ordinary people have been caught between the Islamist violence and brutal government repression.

The Islamic Salvation Army, the armed wing of the FIS, has been fighting the security forces on one front and the more radical Armed Islamic Group on the other.

In a sign of a change in strategy, FIS leaders in exile have made conciliatory statements towards the regime in recent months and have condemned specific terrorist acts targeting civilians. Released FIS leaders in Algiers, meanwhile, have been telling other parties that they are ready to try convincing armed groups to give up their military struggle.

But the Algerian government



Lamine Zeroual
President

aged by the reluctance of its leaders to condemn acts of terror. Ordinary people have been caught between the Islamist violence and brutal government repression.

"In a society that is violently distrustful, in which memories of blood are too fresh, the divisions are too great to allow for any agreement among all sides that is based on trust," says a Western diplomat.

"This is why Mr Zeroual has to accept enough changes in his proposals so that opposition parties are given enough guarantees to take part in a process without having to trust the authorities."

Algeria has passed the point where it can forever repress its Islamic militants with the sort of authoritarian (but internationally tolerated) system of government found in Egypt and Tunisia.

The violence has touched too many lives and the culture of confrontation runs too deep. If the regime tries to take the route of repression, a former government official says, "the only question then becomes, 'When will it all explode again'?"

says the FIS's change of heart is too late for the organisation to be included in negotiations. Officials say former FIS supporters should find a voice within other legal parties with Islamist leanings, such as Hamas, the party whose candidate in November's presidential elections won 25 per cent of the vote.

If Mr Zeroual's proposals on removing Islam from politics are adopted, Hamas will simply strip any mention of Islam from its name and adjust its political programmes to conform to the new rules.

Mr Zeroual claims that he wants the moderate Islamists and other parties to act as an effective alternative to the FIS and, in time, to convince the young men who took up arms of the futility of their struggle. But this will require the president – and the army which still holds the real power behind the scenes – to abandon their monopoly of political power. Otherwise the opposition parties will be seen merely as decorations that help to legitimise a totalitarian regime.

Mr Ahmed Attaf, Algeria's foreign minister, insists that the aim of Mr Zeroual's initiatives is to strengthen the democratic process, but many Algerians remain sceptical about the president's intentions.

Some government actions sit oddly with professed democratic aims. For example, the continued muzzling of the independent press – the latest example of which was last week's suspension of French-language daily *La Tribune* – contributed to suspicion.

Opposition parties will have the chance to test Mr Zeroual's true intentions in the talks starting next week. As requested by Mr Zeroual, the parties have provided written comments on his proposals on amending the constitution.

But they admit that Mr Zeroual is holding the strongest cards. "We are facing a dilemma," says one opposition leader. "To take part in this process is to contribute to our own suicide, and not taking part will also succumb us."

Mr Zeroual will do all in his power to create an institutional framework that gives his political allies – including at least part of the National Liberation Front – an advantage in the general elections, especially since he has no party of his own.

But if Mr Zeroual has any hope of one day returning Algeria to stability, diplomats say, he must also allow the opposition enough room to manoeuvre without government interference.

"In a society that is violently distrustful, in which memories of blood are too fresh, the divisions are too great to allow for any agreement among all sides that is based on trust," says a Western diplomat.

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Financial Times

100 years ago

New German Cable Company, Cologne, 8th July. A new cable company has just been formed here, under the title of the Deutsche Seetelgraphen Gesellschaft (German Submarine Cable Company). The primary object of the company is to lay a cable between Germany and Spain, and eventually extend it to the United States. The present share capital amounts to 3,500,000 marks. Reuter.

50 years ago

Bank to be Nationalised "The Netherlands Bank will be nationalised," Dr Louis J.M. Beel, the new Dutch Premier, told the Lower Chamber of the Dutch Parliament yesterday in his policy statement. Certain Dutch industries would also be nationalised if investigations showed this to be desirable. Dr Beel added, however, that the Government took the view that Government control would gradually have to give place to private enterprise and bodies vested with special power.

Some Clients Leave The annual report of the recently nationalised Bank of New Zealand stated that because of considerable opposition to nationalisation throughout the country, it was inevitable that the bank would lose a certain amount of business.

OBSEVER

Murdoch's alien market

One of the great advantages of being a multi-media mogul is the creative opportunity to plug different parts of your empire into one another.

That's why Murdoch, leaving the new summer *Washington Post* to his wife Wanda, has agreed to merge his *Wall Street Journal* with the *Wall Street Journal Europe*.

The truly staggering sight even the conservative Murdoch political establishment.

Although the party affiliation of the heroic US president who saves the day is never disclosed, he is assumed to be a Republican. If for no other reason that one of the black stars in the fine confederacy is represented by the other.

But Murdoch left the aliens themselves severely alone, either because they were too tidy or perhaps because they were telepathic and therefore had no

need for the mass media. Murdoch, no friend of Washington, even when it is run by Republicans, might also be disappointed to hear that the DC audience did not cheer when the White House and Congress were incensed as though something had happened elsewhere in the country.

That's why Rolf Kohl, the Defence minister's hair before a cabinet meeting.

It was apparently designed to clean up poor Kohl, who has been having a bad time of it, recently because his defence budget is being sniped at by the *Wall Street Journal*'s hard-nosed finance minister who is looking for more savings.

But Kohl rarely dispenses affection so publicly – and yesterday it became apparent that nothing had really changed when Kohl's defence budget received another sniping from Waigel.

In order to make the humiliation

brother
PRINTERS
FAX MACHINES

FINANCIAL TIMES

Tuesday July 9 1996

Awards, Awards, Awards.
We should be called
Radisson /WARDIAN

US carmaker seeks to take on small-car market

GM names six dealers to sell Saturn in Japan

By Haig Simonian in London

Saturn, the successful US carmaker established by General Motors in the 1980s to meet the challenge of low-cost Asian competition, turned the tables on its foreign rivals yesterday by appointing its first six distributors in Japan.

The move marks the culmination of a strategy to develop Saturn sales abroad and demonstrate that US-built small vehicles can compete on price and quality with Japanese products in their home market.

The Saturn models will be the first right-hand-drive GM cars sold in Japan. GM said they would be available in 10 to 15 showrooms when sales start early next year, and it hoped to recruit more dealers to increase its network by the launch date.

"We would hope to have between 15 and 20 stores operating during the first half of 1997," said Mr Don Hudler, Saturn's president.

Saturn's Japanese subsidiary

said it was in talks with more than 30 potential companies and expected several to sign before the end of this year.

"We are convinced the high quality of Saturn cars, combined with friendly customer treatment and service at our Saturn dealers, will make a difference even for very discerning Japanese consumers," said Mr Keith Wicks, general director of Saturn Japan.

Significantly, all but one of its first six dealer groups are independent companies. Only one, Nagoya Daihatsu, is affiliated with a Japanese carmaker, which holds a 30 per cent stake.

Another, Yanase, is a long-standing distributor of other GM vehicles in Japan.

This year Toyota started selling GM's Cavalier sedan under its own name but sales have been disappointing with only 5,154 registrations in the first six months against a 1996 target of 20,000 units.

The naming of the dealers follows a long-running campaign by Saturn to penetrate the Japanese

market. It started exporting to Taiwan, its only foreign market apart from Canada, in 1993 to develop its logistics and gain experience in selling to east Asia.

Mr Hudler said the company believed the time was now right to enter Japan, as consumer tastes were changing and motorists were looking for more choice.

Sales of foreign cars in Japan have risen sharply in recent months. However, US exports have generally failed to match the strong growth rates registered by European carmakers.

Although GM's exports soared by almost 150 per cent to 10,633 units in the first six months of this year, compared with the same period last year, Ford saw an increase of just 12.6 per cent to 8,125 for the period, while Chrysler sales declined by 8.2 per cent to 6,981. These mixed fortunes have cast strong doubts on whether the US Big Three will manage to meet their targets of exporting more than 100,000 vehicles each to Japan by the end of the century.

Bonn plans 2.5% cuts

Continued from Page 1

lin. However, the cost of servicing the federal debt is also set to rise to DM68.2bn from DM68bn.

Mr Waigel's budget will be set in the context of slow real growth of 0.75 per cent this year with a pick up expected in the second half. Growth of between 2 and 2.5 per cent is expected in succeeding years.

The DM65.5bn of net borrowing projected for 1997 will be about DM7bn higher than anticipated a year ago. According to the draft, the federal borrowing requirement will not fall below DM50bn until 2000, when it should total DM48.5bn.

Airbus to be one company

Continued from Page 1

the drawback to the existing structure is the way partner companies are given manufacturing work regardless of their efficiency or production costs. Aérospatiale and Dasa each own 37.8 per cent, BAE has 20 per cent and Casa 4.2 per cent.

Yesterday's decision by the Airbus supervisory board follows a report by a committee headed by Mr Edzard Reuter, former chairman of Daimler-Benz.

The supervisory board, also chaired by Mr Reuter, said it expected the partner companies to reach a memorandum of understanding by the end of the year. A decision on the precise form the company would take would be reached by 1999.

Turkey confirms Erbakan as first Islamist premier

By John Barham in Ankara

Turkey's parliament yesterday confirmed in office the country's first Islamist prime minister but not before one deputy threw a punch during voting after a short but rowdy debate.

The coalition between Mr Necmettin Erbakan, leader of the Islamic party Refah, and the centre-right True Path party of former prime minister Mrs Tansu Ciller was approved by 13 votes in the 550-member parliament.

Voting was interrupted briefly when Mr Enver Gönencay, a former foreign minister, was punched by a True Path party colleague for voting against the coalition.

After the vote Mr Erbakan said: "I believe there will be a new start for Turkey. We will work day and night with the spirit of worship. Our citizens will be happy they have been saved from chaos. God willing, this government will work for a long time."

Mrs Ciller defended her controversial decision to support the first Islamic premier in the 73-year history of the Turkish republic. "We have chosen the difficult but correct path," she said, adding that there had been a choice between deadlock and "democratic opening".

Yesterday's vote follows a period of political confusion since Mrs Ciller's coalition government collapsed in September. Inconclusive general elections were held

in December and since then the country has been run by a succession of caretaker prime ministers and a shortlived conservative coalition that fell in June.

Few political analysts believe Mr Erbakan's government will be long lasting. Mr Hasan Celal, senior political columnist on the pro-Ciller newspaper Sabah, predicted it would last until spring and would carry out a "populist cycle of policies". He expects Mr Erbakan will call elections early next year in the hope of winning a majority.

"Refah's primary [objective] is to show people it was possible for an Islamist to become prime minister," Mr Celal said. "A kind of taboo has been broken."

Some analysts had expected Mr Erbakan to use the secular military to prevent Refah taking office. Commentators believe Refah will avoid any direct challenge to the secular establishment, such as shifting the country's traditionally pro-western foreign policy. They expect the Islamists to install supporters in government departments and gradually move towards pro-Islamic policies.

But fears are growing that Mr Erbakan may adopt a more aggressive stance towards Greece, Turkey's traditional rival, to bolster his popularity.

Some analysts expected Mrs Ciller's alliance with Refah would split her party, but only seven MPs have quit True Path and 14 others refused to back her in yesterday's vote.

French defence ministry admits to wiretaps

By David Owen in Paris

A new political scandal erupted in France yesterday after the defence ministry admitted ordering wiretaps on two senior aides to Mr François Léotard, the junior defence minister and current president of the UDF, the junior partner in France's ruling coalition.

In a move that threatened to put relations in the coalition under severe strain, the ministry said the "interceptions" were for unspecified "national security" reasons.

It said the first tap began on July 11 1995 - about two months after the Gaullist Mr Jacques Chirac won the presidency. Both taps ended in October.

The admission followed reports in Le Monde, the left-leaning daily newspaper, that the telephones of several members of Mr Léotard's entourage were tapped by the Direction Générale de la Sécurité Extérieure, France's overseas espionage service.

The newspaper identified three of the officials who were subject to wiretaps. It speculated that the operation might have been linked to suspicions that money from arms sales to Saudi Arabia could have been channeled to supporters of Mr Edouard Balladur, the former prime minister.

Mr Balladur campaigned unsuccessfully for the presidency in the election won by Mr Chirac. Mr Léotard was a senior organiser of Mr Balladur's campaign. He succeeded Mr Valéry Giscard d'Estaing, the former president, as UDF head in April, reading off a challenge from Mr Alain Madelin, the former finance minister.

Mr Léotard last night demanded a public explanation for the wiretaps from Mr Alain Juppé, the French prime minister. He described the move as "as astonishing as it is unjust for military men or senior civil servants who have served their country with honour".

He called on the prime minister to acknowledge that "no reproach or fault with a bearing on national security had been established against these people" and that no political reasons could be used to justify "practices that do no honour to our democracy".

Mr Juppé's office defended the wiretaps but refused to explain why they were carried out. It said the action had been legal, strictly for national security reasons and approved by an independent national committee.

Yesterday's disclosures gave a fresh twist to a series of scandals over alleged illegal political funding, including of Mr Chirac's Gaullist RPR party.

Mr Chirac was yesterday in Qatar, having visited Saudi Arabia at the weekend.

THE LEX COLUMN

Reaching for the Sky

By finally linking up with Bavarian media mogul Mr Leo Kirch, Mr Rupert Murdoch's BSkyB has won an important prize together, the two men look formidable positioned for future dominance of Germany's television screens. For a start, Mr Kirch's plans for digital pay-TV in Germany are already well-advanced, with 17 channels due to be launched later this month. His only rival - a disgruntled alliance of Bertelsmann, Canal Plus and Havas - is well behind. For another, as a partner the burgeoning Mr Kirch looks much better suited to Mr Murdoch's style than stodgy Bertelsmann.

Moreover, Mr Murdoch seems to have cut a remarkable deal. BSkyB will get a 49 per cent equity stake in the Kirch venture, in marked contrast to Kirch's recent deal with Viacom in which no equity was exchanged. And it is having to pay nothing for the privilege.

Of course, BSkyB will have to bear its share of the venture's start-up losses. But even if this makes a nasty dent in BSkyB's juicy cashflow over the next few years, the long-term prospects look enticing. Germany is, after all, potentially the largest pay-TV market in Europe.

The big question is whether Mr Kirch and Mr Murdoch are likely to face any competition at all. Bertelsmann is unlikely to give up altogether. But its alliance still looks in deep disarray; yesterday's wishful statement that Bertelsmann "hopes for a return to greater mutual confidence" with its partner Canal Plus is hardly promising.

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FT-SE Eurotrack 200:

1728.3 (-8.7)

Shares price/cash ratio relative to the FT-SE-A All Share Index:

150

140

130

120

110

100

90

80

70

60

50

40

30

20

10

0

Source: FT

four current shareholders. The snag is that British Aerospace's factories are efficient and profitable, whereas those of Aérospatiale and Daimler-Benz Aerospace are not.

A proper valuation would therefore leave BAe with a much bigger stake in the new company than its current 20 per cent. That would be difficult for the Germans and French to swallow politically.

A more elegant solution might be to construct Airbus as a sophisticated design house. It could then contract out work to the lowest-cost operators, be they shareholders or not. In the longer term, Asian manufacturers probably have an unbeatable cost advantage over Europeans, so it may make sense to bring them into new projects, like the 550-seat "super jumbo". At the very least, a more independent Airbus should be able to think such commercially-minded thoughts.

Airbus

Setting up Airbus as a proper company is a big step towards getting Europe's sluggish four-nation consortium airborne. In the face of increasing competition from Boeing and McDonnell Douglas of the US, Airbus desperately needs to improve its competitiveness. Mr Jean Pierson, its managing director, has publicly stated the need to cut costs by 20 per cent over the next few years. Competitive tendering and central buying of parts - impossible under the current legal structure - would get him a long way towards his goal.

Agreeing the principle is one thing. Thrashing out the details will be much more difficult - which is why it may take until 1998. The most straightforward solution would be to hand Airbus the manufacturing facilities of its

parent company. Indeed, GrandMet would look better placed to gain the upper-hand in any contest. It has a better record on takeovers; it has the advantage of a fast-growing foot business; it is further ahead in restructuring its spirits business; and it could achieve greater cost savings as a percentage of the cost of the bid.

Nonetheless, investors should not take the leaked report on a GrandMet bid as evidence that takeover activity

is coming to the sector. The report may demonstrate possible cost savings from spirits mergers, but these savings are insufficient to cover any bid premiums. This applies even to Allied Domecq, the weakling of the big four global spirits groups.

Of course, it is possible that Allied's new chairman could broach the subject of a friendly merger, but the attitude of its competitors suggests to be that it is more profitable to beat it than eat it. They have been proven right so far.

Corporate activity may come to the sector, but it is likely to be more subdued. Joint venture distribution deals are one way to extract some merger benefits without the merger. GrandMet is under little pressure to pursue such deals, as it starts to reap the benefits of restructuring and increased marketing expenditure. Guinness is clearly somewhat hungrier.

Tomkins

Tomkins may no longer be fashionable, but it is never less than solid. Earnings growth of 7 per cent in a year when an extended US winter knocked £200m off lawn mower sales is no mean feat. Healthy cash generation underpinned a 15 per cent dividend increase at a time when Hanson and BT are considering cuts.

Looking forward, the group has Gates to get its teeth into. As with most family-run companies, there is huge scope to improve returns. Gates' operating margin was only 4.3 per cent last year. Tomkins also believes it can extract £250m of working capital. At Rank Hovis McDougall, bought in 1992, reorganisation costing £20m and subsequent investment have been financed with its own cash. Moreover, Gates adds a slice of growth to Tomkins' otherwise mature portfolio.

Compound turnover growth at Gates has been more than 8 per cent for the past three years and there are opportunities to sell more of its rubber belts and hoses in Asia and Latin America.

In the US, the group should have taken a share as carmakers convert from metal belts to rubber ones.

The shares deserve a market average rating, which suggests a 10 per cent improvement over the current price. But the management has made clear that a sharper focus, which could include disposals and a share buy-back, remains low on the agenda. It is difficult to see the shares fizzing while Tomkins remains an unrepresentative conglomerate.

Additional Lex comment on Hanson, Page 21

This announcement appears as a matter of record only

June 1996

Daimler-Benz Capital (Luxembourg) AG

DM1,200,000,000

4.125% Deutsche Mark Bearer Notes of 1996/2003 with Appertaining Warrants N.E.W.S. ("Notes with Equity Warrant Securities")

unconditionally and irrevocably guaranteed by

Daimler-Benz Aktiengesellschaft

exercisable into shares of